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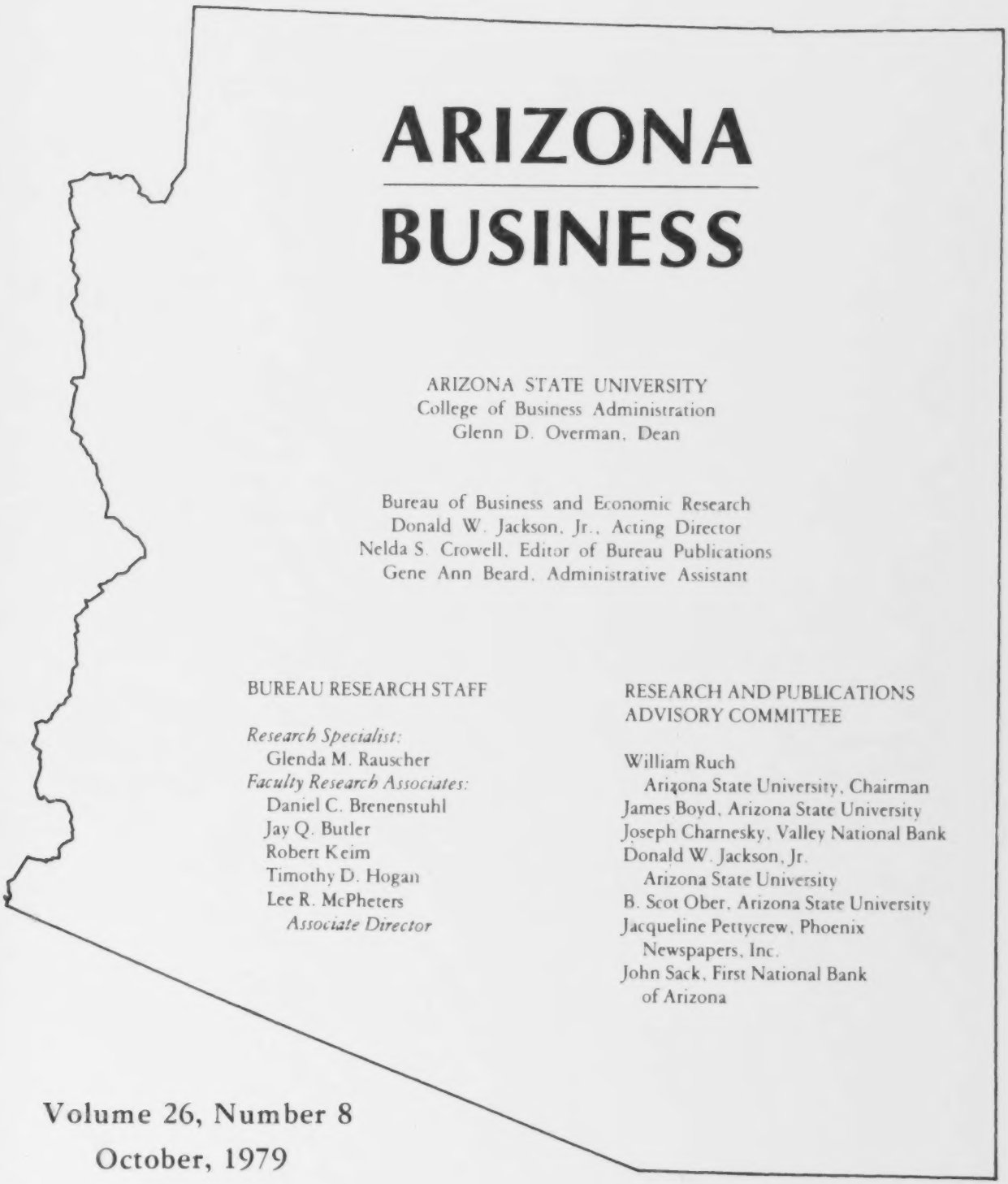

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Report To The Reader

Mention real estate in any contemporary conversation, and attention is virtually guaranteed. The subject includes everything from home ownership to land development and involves a multitude of disciplines including finance, law, management, marketing, economics, accounting, and more.

With this interest in mind, this issue of *Arizona Business* features two informative articles related to the field of real estate.

The first article is intended to guide potential developers around some of the pitfalls that can occur in such diverse projects as apartments, shopping centers, or office complexes.

The author, Dr. Jay Q. Butler, is Assistant Professor of Real Estate and has a wide variety of experience in the field. As a faculty research associate in the Bureau of Business and Economic Research, he coordinates the collection and analysis of the construction activity data and is involved in the various other bureau projects that are related to real estate.

Dr. Butler stresses that the more extensive the groundwork and analysis on any project, the greater is the likelihood of success. None of the important steps should be overlooked or taken lightly because all are so closely interrelated. Even experienced developers may occasionally experience setbacks if they become complacent or operate solely on intuition.

The second article deals with the legalities of real estate with respect to mortgages and deeds of trust, and explains the differences between the two security devices.

Dr. Mary Jane Dundas, Assistant Professor of Administrative Services, holds a B.A. degree from California State University, and a J.D. degree from Loyola University in Los Angeles. Her legal background and experience in a wide variety of enterprises makes her particularly well qualified to discuss legal documents.

Dr. Dundas points out that the main advantage of the trust deed lies in the fact that the creditor can choose a quicker route other than the lengthy judicial foreclosure in case of default. Dr. Dundas also explores both documents with respect to parties involved, lienholders, transfer of property, default, acceleration, redemption or reinstatement, possession after sale, and deficiency.

A Perspective on Real Estate Land Development

JAY Q. BUTLER

Real estate land development is a vital and dynamic field that produces what is bought, sold, leased and financed throughout the real estate industry. It is the difference between stagnation of a community and economic growth and development of that community. Fundamentally, a developer combines land, improvements, financing, marketing and management into a product that will satisfy market demand at an acceptable level of economic return.

Arizona land development has become a multi-billion dollar industry, and construction activity, which represents but one element of the development process, recorded permit values of over $2 billion in 1978.[1]

Because land development is an important and ongoing element of the Arizona economy, this article examines the general development process. Furthermore, certain problem areas are identified and suggestions are made for overcoming them. The objective is to provide all of the participants of the process — from developer to lender to government officials to consumers — a better perspective of the process and the problems that need to be overcome to provide the needed developments for a growing state.

Real estate development is a multifaceted field that involves numerous elements that are interrelated and overlapping. Overlooking or minimizing any one phase could lead to difficulties.

Jay Q. Butler is Assistant Professor of Real Estate in the College of Business Administration, Arizona State University, and is a Faculty Research Associate in the ASU Bureau of Business and Economic Research.

THE DEVELOPMENT PROJECT

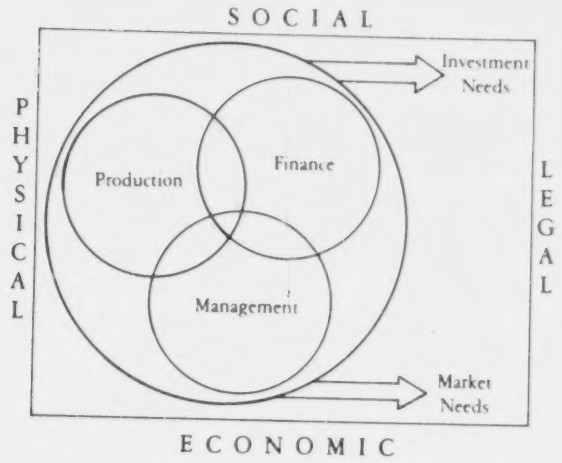
The fundamental components of any project are shown in Figure I. In a very general sense, a project consists of three components — production, financing and management — that are designed, constructed, and operated within a set of constraints to satisfy investment and market objectives. Production includes such items as site selection, materials, and design. Financing is concerned with acquiring the needed mix of debt and equity money. Management involves marketing and property management. The components are interrelated since the activities of the developer in one will affect the others. For example, the use of quality materials might increase capital costs (requiring greater amounts of financing) while decreasing the marketing problems due to the quality image and reduce maintenance costs. Because of the interrelationships, a developer must fully consider the effects that decisions concerning one component will have on the others.

A real estate project does not exist in a void but is affected by its surroundings — by various constraints and limited resources. Physical limitations, for example, are provided by lot size, location, and soil condition. Legal constraints relate to land use planning and

controls, and security regulations. Less tangible are the social constraints — the needs, desires and demands of potential consumers. Economic constraints pertain to market conditions and cost of borrowing. In analyzing the potential of a proposed project one must consider these limitations, their impact on the project, and the cost and difficulty of removing or reducing the impact of a constraint.

FIGURE I

DEVELOPMENT PROJECT



Source: Developed by the author.

Within the limits established by the constraints, a developer has the fundamental purpose of producing "the right product at the right place at the right time." In order to fulfill this purpose, a project must first make a profit. A basic objective is to generate a return that will make a project economically and financially sound. In order to do this, the project must satisfy market demand. Because development is market-oriented, there must be demand for the project. Both objectives must be satisfied in order to have a successful project. If the market does not exist or is not of sufficient size, the profit objective cannot be realized.

In determining whether a development can achieve its objectives, the question of risk must be considered, and the developer must realize that each real estate market is unique. While demand is volatile due to ever changing expressions of needs, desires, and demands by users of real estate, supply — in other words, the finished product — is fixed due to the immobility and durability of real estate. The risk element comes into play because a time lag occurs between the recognition of demand and the delivery of the project. Furthermore, because each project is fixed in location, its future is tied to the economic health of the surrounding neighborhood and community. The risk element is further enhanced by the fact that sums required for development are large. Therefore, the terms of the financial agreements are crucial for they represent a substantial claim on the cash flow of the project. The developer must be particularly cautious in this area because agreements between syndicators, investors, purchasers, tenants and lenders can be complex. A further consideration involves tax rules, which are intricate and are changed frequently and create considerable impact on the acquisition of the equity capital.

The developer may find that information essential to making sound development decisions is imprecise, hard to find, and likely to be inaccurate,[2] but because of the inherent risks and complexity, the process of development must be carried out in a systematic manner.

THE DEVELOPMENT PROCESS

The purpose of development is to convert unproductive land usage into productive usage. This can be done by changing the type of use, for example, changing vacant land to a subdivision; or changing the intensity of usage, as when enlarging a shopping center; or changing the quality of usage, which might involve remodeling an old building. The elements of the process are market analysis, site selection, project design and construction, financing, and the marketing and management of the project. A developer will have to perform several of these elements at the same time. Furthermore, there is no specific starting point for development since it will vary from developer to developer.

Developers may specialize in a type of development such as apartments or warehouses, for example, and their concern is to find a market that fits their needs. On the other hand, another developer might have found a niche in a market and will attempt to fill it. In still another situation, a developer might have capital and wants to become involved in a project.

Market Analysis

A market must exist in order for a project to be successful. Thus a developer should be concerned with determining market demand and requirements. As basic as this fact is, most development failures can be

traced to an improper consideration of the market potential for the project.

Many types of analysis can be done. A new book by Messner, *et al, Analyzing Real Estate Opportunities*, provides an in-depth examination of market and feasibility studies. The general forms of analyses they present are shown in Table 1.

TABLE 1

FORMS OF MARKETING STUDIES

Market Analysis	Analyzes market variables which influence the supply and demand for real estate.
Marketability Study	Determines the ability of a market to absorb a specific property.
Feasibility Study	Determines if a project is a "go" or "no go" situation at a specific site given certain financial (economic) criteria and client objectives.
Highest and Best Use Study	Determines that use, found to be physically possible, appropriately supported, financially feasible, which results in highest land value.
Investment Analysis	Determines the attractiveness of an investment by analyzing the costs and benefits utilizing time value of money and/or various ratios.

Source: Messner et al, *Analyzing Real Estate Opportunities* (Chicago: Realtors' National Marketing Institute, 1977).

These various forms of analysis would occur at various times as the project moves to completion: market and marketability studies would be performed before a firm development concept is established while the other analyses would be used as the concept becomes more precise.

Although each form serves a specific purpose, the general area of analysis involves examining several basic items: the market, the consumer, the competition, and the financial requirements. In analyzing the market, the developer needs to discover facts and trends about the economic climate as to financing (cost and availability), land costs, and building costs. Such an analysis must also document current and proposed supply of competition and document the role of government as to regulations and taxes. It must also identify market opportunities not being served or being inadequately served in terms of location, price, rent, design or services.

The consumer is another key factor in the analysis. A study should determine who the potential users of the project are and then develop a profile of potential users as to income, demand, and preferences.

A comprehensive analysis must also take into consideration the competition. It should ascertain what the competition is offering and analyze the achievements and shortcomings of the competition.

Financial requirements are a further aspect of analysis. One must expect and determine what is needed to profitably serve the market.

The fundamental purpose of doing an analysis is to determine the possibility that a proposed project will satisfy the market and profit objectives with an acceptable level of risk. Furthermore, the various forms of analysis can give insight into general market conditions, trends, requirements and unserved opportunities. It will also bring to light any constraints on the project, including government regulations; financing physical requirements such as flood plain, soil compaction; and social dimensions such as life styles and work habits. During the course of the analysis, preliminary ideas will be formed about site requirements; the project design needed to attract and satisfy the market; financing availability and cost; investor requirements; market strategy and plan of action on where to build, for whom to build, and when to build.

Analyze — don't guess. Because of the complexity and expense of development, enormous amounts of money can be lost by doing a project that is not marketable at an acceptable level of profit. Hence, the developer "... must produce an in-depth study of a proposal backed by proper analysis instead of merely relying on intuitive judgment — the "gut reaction" developers talk about."[5]

Be concerned with tomorrow — not just today. Most of the data gathered for analysis is of a historical nature. The concern must be with what the future market and economic conditions will be like when the project opens. The developer must remember it takes time to develop a project and the market is volatile. What is hot today may be cold when the project opens. Furthermore, because the market for a property type is not good now; there might be an opportunity given the required development time.

Analyze data. Because most data is historical, one must be concerned with the trends in data and the market forces that create and direct them. Thus, one must examine and understand the market forces at the national and local levels that affect the market for a project. This requires relating data elements to each other, for example, relating building permits to absorption rates. Permits may be going up but it could be taking longer for the market to absorb them.

Examine and question the data. If the developer does not agree with the findings of a study, the information should not be forgotten when the project

goes into development. This is not meant to imply that analysis is perfect — far from it but if there is disagreement, the source of disagreement should be identified and further examined. At the other extreme, some developers take the studies at face value and never question the validity of the assumptions and interpretations.

Establish what is to be analyzed. All analyses must begin with clear definition of what is to be analyzed and the purpose of the analysis. Thus, a developer must clearly establish the objectives of analysis — what questions are to be answered. Because the studies have specific purposes or requirements, one must learn the various types of analysis so that the right one can be done. A developer might ask for a feasibility study, but really needs a marketability study.

Recognize that analysis is an ongoing process. Because the market is volatile, analyses and conclusions can become outdated very quickly. As a project moves through the development process, the analysis should be updated so that changes, if needed, can be made.

Consider supply. Many times, people tend to emphasize the demand side and fail to recognize that other developers are also considering projects. Because no market is infinite, a developer must be concerned with potential competitors that could take the market away especially if they arrive first.

Differentiate between behavior and attitudes. In many consumer surveys, people will be asked what they would like in a housing unit. However, this may not represent buying behavior, for a desire does not encompass the concept that a person has the economic capability to fulfill it as is expected with demand. Developers must produce what people are economically capable of acquiring (demand), not desires or likes.

Understand pent-up demand vs. continuing demand. Pent-up demand represents unsatisfied demand due to a recession or absence of supply in market area. Once the economy picks up, there might be a surge in demand. However, this demand may be temporary, for it could be satisfied by the early suppliers. It is the continuing demand or the continuous flow of the market that a developer must produce for. If he mistakenly develops for the pent-up demand, he could produce more than the market is willing to accept.

Site Selection

Even if excellent analysis is done, an inappropriate location can destroy a project. Each type of development has locational requirements. Hence, a developer must become familiar with the requirements of the project under consideration. The prime requirement is to choose a site that will satisfy market requirements.

Obviously the site itself and its surroundings are of prime importance. This includes the quality and character of surrounding area and approaches, as well as the prestige and reputation of the area and the existence of adverse factors such as noise, odors, sights and traffic.

Interior physical characteristics of the site are also important. The developer must be aware of flood plain and drainage, subsoil conditions, and existing structures. Utilities can also be important to a development project. This involves not only the availability of lines and costs to bring them in, but also the capacity of the utility system to absorb new hook-ups.

Legal restrictions are easily determined, but care must be taken that none are overlooked. The developer must be aware of potential problems regarding title, assemblage, rights-of-way, and easements. Government restrictions are more obvious and relate to planning, zoning, subdivision regulations, and building codes.

With respect to location, the linkage and accessibility patterns of a proposed project are of particular importance. Linkage involves interactions among land uses, for example when single family dwellings interact with churches, schools, work, recreation and shopping. Accessibility refers to the ease of interaction as measured in time and cost of carrying out the interactions.

The major point to remember is that no site is perfect, but one must select a site that qualifies to the greatest extent and is affordable.

Avoid purchasing land too soon. "The biggest mistake a developer can make is to buy a piece of land and then figure out what to do with it."[4] In the early stages of the development process, the developer can tie up the land via an option or purchase contract with contingencies. The object is not to commit resources to land purchase until one is sure of what to develop.

Walk the land. One must physically examine the property to avoid surprises like drainage ditches or covered wells. The removal of the unwanted items can be expensive and time consuming.

Consider access. One must consider items like traffic flows, medians, and left turns. A developer must determine how people will get to the site and whether it will satisfy market requirements. As an example, much of the activity at a convenience food store is at the homeward bound time. Hence, being on the right side of the street would be of great importance.

Consider the amount of land. Developers frequently buy too much or too little. One must purchase enough land to accommodate the development physically and be absorbed over an appropriate period of time. A developer who does not carefully consider the amount of land needed to build the needed structure with required setbacks, lot coverage, and parking ratios, could conceivably not buy enough land or buy too much. Thus, one must have a basic idea of the design before buying.

Analyze legal and physical constraints. Analysis is needed to consider carefully such questions as: Can marketable title be delivered? Are there assemblage problems? Can the subsoil structure support the project? In many cases, experts need to be consulted. The site might look flat to the untrained eye, but there could be a slope and drainage problem that could be expensive to correct.

As with all elements of the development process, site selection must be done carefully to select the one site that will provide the greatest benefit to the project. No site is perfect so tradeoffs must be made after a systematic consideration of a site has been made relative to the requirements of the project. The developer must be willing to commit resources in site selection that might not be recovered.

Project design and construction

The purpose of this element is to produce a product that is acceptable to the market in both composition and price.

The circulation pattern is an important consideration in the way a project will be used and the extent to which it will be used. People must move around and within the project. If this movement is restricted, uninteresting, or dangerous, people will avoid the project or will cease using it. Within houses, movement should not always follow the same pattern nor should it be directed through the same room. In shopping centers and industrial developments, enough room should be provided for trucks to turn around or easily gain access to loading areas. Loading should be accomplished from the rear, not from the front which takes up parking area and can be dangerous to customers. In apartments, parking should not be located too far from the units.

Effective landscaping is important because it not only improves the looks of the project but can be used as a means for providing protection for the building from the elements such as wind and sun and can also serve as a noise barrier. Effective landscaping requires consideration of both maintenance and plant growth. When establishing the landscaping plan the designer needs to consider what it will look like when the landscaping has matured.

Like landscaping, amenities can serve to attract and retain users. Too many times, however, developers overdo amenities (for example, a fireplace in every apartment) and are not able to charge enough to recover cost. The principle of contribution must be considered, for the amenity should provide a return greater than its cost. Furthermore, amenities should be relatively visible or the consumer will feel the product is not realistic for the price. If the amenity is hidden, like the use of special insulation, a marketing demonstration should be available at the sales office or rental office.

Change-orders should be avoided where possible. Each time the project is physically changed during construction, an increase in costs could affect return, especially if price or rents cannot absorb the increased cost. At times, change-orders are needed to adjust to changes in the market and/or public agency requirements. However, a properly designed development should allow for some reduction or expansion in external changes. A major problem can occur when construction begins on a project when the overall design has not been finalized.

In order to reduce risk, some developers attempt to go after more than one market. As an example, offices may be established in apartment complexes, condominiums and rental units; or a complex may be designed to house both retired people and young families in the same complex. Although careful design (such as the cluster or node concept) can successfully attract different market segments, many times the project is found wanting by both segments.

The project must be attractive so as to induce people to come in and then heighten their desire to stay and/or buy. The best marketing tool is the project itself. Each project should create a distinctive image. Given some imagination, one project does not have to look like all of the others.

Due to inflation, cost increases must be considered, especially when carrying out a program of presales or prerentals. If a hard price is set for a product to be delivered in nine months or more, a developer could lose money if cost increases were not realistically considered in setting the price. However, overstaging price increases could also make the initial price unacceptable to the market.

Financing

This element includes both equity and debt money. Equity money can come from the developer, the organization, or from investment groups such as general partnerships or limited partnerships. Debt financing can come from life insurance companies, banks, savings and loans, real estate investment trusts, and pension funds.

A construction or interim loan covers the construction and is usually paid out in phases or "draws" as work progresses on the project, while a permanent loan is a long-term mortgage which pays off the interim loan. Sometimes, the permanent loan will be funded (in part or whole) only if a certain level of occupancy is achieved.

Gap financing occurs when there is a time difference between the expiration of the interim loan and beginning of the permanent loan (as might occur if there is an occupancy requirement), and the developer must be able to acquire funds to cover this difficulty.

Prepare a presentation for financiers. The purpose of the prospectus or package is to provide information on the project and the developer so that the finance experts can judge the potential and riskiness of the product. A poor presentation could create a negative impression of the project in the minds of the potential financiers.

Review regulations. Investment offerings can come under a variety of federal and state regulatory bodies. Failure to follow regulatory procedures properly can create limitless problems and delays for the project.

Consider financial feasibility. Because debt servicing represents a large claim on the cash flow, careful consideration must be given to ability of the project to pay for debt servicing, especially in first few years. Many times a project is only analyzed at 95 percent occupancy rate showing financial feasibility, but this does not adequately consider the ability of the project to make the payments. By the time the project reaches 95 percent occupancy, the lender may own it.

Analyze leverage. Leverage has many benefits, but it also has a negative side. By not properly considering the return on equity relative to the annual debt service (mortgage constant), the developer might have negative leverage. This exists when one is paying more for the debt money than is being received as a return on equity.

Keep partners informed. Some developers believe that limited partners should only supply money and then remain inactive. Thus, there is little communication between developer and limited partners. Developers may wonder why limited partners are upset if goals are not met or when they need more money for the current or new projects. Limited partners must be viewed as a resource that should be carefully nurtured. Basically, this means the developer should keep the investor informed as to the condition of the project.

Marketing and Management

Even though this element is presented last, it is fundamental to the entire process. A developer must be viewed as a manager of resources who has the responsibility to plan, organize, direct, and control the project from its inception to the time when the responsibility terminates. Because of the increasing complexity, a developer needs the assistance of experts from many fields such as appraisal, site planning, architecture, financing, and other technical areas. Even with the experts, the success of a project is dependent on the developer's managerial ability to combine the components and resources into a product that satisfies the stated objectives. It must never be forgotten that development is a business operation conducted for profit, so all decisions must be considered as to their impact on profit.

Marketing is the process of finding the consumers, attracting them to the project, and then making sure that it satisfies their needs and demands. Development of the marketing strategy begins when the target market is identified. The strategy involves blending staff, advertising, public relations and merchandising (selling or renting) and extends to amenities, location, design, and landscaping. Fundamentally, all aspects of development end with the same goal — to sell or rent the product to the consumer at a profit. Until the product is marketed, revenues and profits cannot be generated.

Many times the technical aspects of construction are designed to overshadow marketing and management. Recognizing the fundamental role of marketing and management can avoid many problem areas.

Take a long-term perspective. Developers must lengthen their scope of concern beyond the property lines because any project will have some impact on the larger community. A developer must be sensitive to the long-run needs and expectations of the community. In a sense, a developer is responsible for the long-term judicious management of land.

Recognize management weaknesses. Many developers do not have the desire to be managers. They prefer to be involved with a specific aspect of develop-

ment such as construction or financing. This is especially true in the "nuts and bolts" areas such as scheduling, budgeting, and financial controls. In order for a project to be successfully brought to completion, a developer must get involved or hire people capable of performing the overall aspects of management.

Become involved in property management. Many developers are intensively involved with various aspects of development but do not achieve the same level of involvement with property management. A project cannot be a success unless it has a good system of maintenance, leasing, budgeting, and payment of bills. The quality of property management has a direct relationship to the ability of a project to meet its investment and market objectives. If the developer has responsibility for property management, he must be sure that the property management process, whether an internal operation or contracted, is performed in a systematic and efficient manner.

Develop a marketing strategy. Once a market segment has been identified, development of the marketing strategy should be started. Marketing must be viewed as an integral part of development, not something that is started as the project is completed. Because the nature of the project might change due to the volatile market, cost increases, or design changes, it may no longer appeal to the original target market. One must then determine what market it will appeal to. Thus, the marketing strategy must be flexible to market the project appropriately over time.

Understand the target market. In order to obtain maximum effectiveness out of the marketing program, one must be sure that it zeroes in on the market. This would include such considerations as the choice of media for advertising, type and nature of sales staff (one should not use young people to sell retirement homes), and furnishing the model. Throughout the marketing program, the goal is to attract the market, create an interest and desire in the product, and get the consumer to take the required action. Thus, every aspect of the marketing program must be aimed at the market most likely to use the product.

Recognize the importance of sales people or rental agents and the product itself. Whether these people are internal staff or contracted, they must understand and be excited about the property. By having committed people, the sales or rental performance will be more effective. Nevertheless, the property should sell itself. This can be accomplished through consideration of curb appeal, through such areas as elevation design, traffic flow through model units, and furnishings. In sum, the product itself must generate the basic desire for the market to want it.

CONCLUSION

Development is a challenging endeavor that can provide very profitable rewards, but it has many inherent risks and problem areas. Most of these, however, can be overcome by a developer who systematically and thoroughly carries out the development process. Even in a poor market, development opportunities are available to those who recognize them and have the capability to combine the components and resources into a product that is acceptable to the market and economically sound. The fundamental fact to remember is that all aspects of development are interrelated, and a weakness or failure in one element will undermine the success of the entire project.

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[1]"Construction Activity in Arizona: The First $2 Billion Year," *Arizona Business*, 26 (March 1979): 3.

[2]A further discussion is contained in Messner, *et al. Marketing Investment Real Estate*. (Chicago: RNMI, 1975).

[3]J. Ross McKeever, Apartment Development: A Strategy for Successful Decision Making. Special Report (Washington, D.C.: Urban Land Institute, 1974).

[4]Ibid.

A Comparison of Mortgages And Deeds of Trust

MARY JANE DUNDAS

A mortgage is the traditional document that secures payment on debt owed on real property. In 1971, Arizona enacted legislation adopting the deed of trust (also known as a trust deed) as an alternative security device to the traditional mortgage.[1] The purpose was to provide a speedy remedy to the holder of a security interest.[2]

In order for a mortgage to be foreclosed, the holder must file a civil action in Superior Court, which is not only time consuming, but also expensive since court costs and attorney's fees must be added to the expense of the judicial proceeding. Additionally, whoever purchased the real property at the foreclosure sale took the title subject to a six-month redemption right of the mortgagor. However, the speedy remedy under the trust deed has stripped debtors of many of their rights.[3] The purpose of this article is to show the similarities and differences between the mortgage and the deed of trust.

SIMILARITIES

Both the mortgage and trust deed secure the debtor's performance in paying the promissory note or other contractual obligation incurred while purchasing real property. In the first place, a debt must exist; otherwise the mortgage or the trust deed cannot be enforced.[4] The holder of the mortgage or trust deed is said to hold the security interest in the real property. If the debtor defaults, the holder of the security interest may sell the property involved and apply the proceeds to the amount owed. Both types of security interest are recorded in the county where the real property is located, and both must be in writing to be recorded. Ironically, the contract to sell the land, which supports the security interest, does not have to be in writing to be valid.[5] The contract and the security interest may be two separate documents or may be embodied in one document.

Both the mortgage and trust deed may allow assignments of leases, rents, issues, profits, or income from the secured property. The acts that will activate the assignment clause depend upon the terms contained within the mortgage or trust deed.

Mortgages can be used in any land transaction in Arizona. The trust deed, on the other hand, is not acceptable in a transaction that includes property located in part outside the state of Arizona. If the trust deed is executed for some other purpose than securing performance on the note or contract, the parties may agree that the law governing trust deeds will not apply.

PARTIES INVOLVED

Only two parties are involved in a mortgage. The debtor is the *mortgagor*, the one creating the mortgage. The creditor is the *mortgagee*, who lends the money.

The trust deed is a security device adopted in 1971 as an alternative to the mortgage. This article explores the similarities and differences in the two devices and suggests the advantages and disadvantages.

Mary Jane Dundas is Assistant Professor of Administrative Services in the College of Business Administration, Arizona State University.

In contrast, there are three parties to a deed of trust. The *beneficiary* is the creditor, and it is for that person's benefit the trust deed is created. The *trustor* is the debtor whose performance on the note or contract is secured by conveying the trust deed. The trustor holds true legal title to the real property which is being secured by the trust deed. The *trustee* is an individual, association, or corporation that holds bare legal title to the property. Individuals who may serve as trustees are real estate brokers, insurance agents, or members of the Arizona bar. All must be licensed under the laws of Arizona. An individual may not be a trustee and a beneficiary at the same time. Qualified corporations or associations must be doing business under the laws of Arizona or must be licensed, chartered, or regulated by specific federal agencies. These corporations or associations may also be beneficiaries in addition to acting as trustees.

The beneficiary may remove the trustee for any reason and designate a successor.[6] There is no requirement in the statute that the legal title held by the trustee be conveyed and recorded to the successor trustee.[7]

LIENHOLDERS

Legal title is recorded in the debtor's name by having the deed to the real property recorded in the debtor's name with the county recorder's office.[8] In order to be effective against the claims of others the deeds must be recorded in the county where the real property is located. The debtor has legal title subject to the lien.

The mortgage statutes specifically state that the mortgage is a lien upon everything that would pass by the warranty deeds to the property. A mortgage is not a conveyance of title; thus neither equitable nor legal title passes to the mortgagee.[9]

The trust deed statutes are not as clear as the mortgage statutes on this point. Under the trust deed both the trustor and the trustee hold legal title. However, the trustee holds a bare legal title to the property — that is without any other rights that are conveyed with a true legal title.[10] The trustee has legal title to convey the property at the out-of-court sale and nothing more. All the other incidents of legal title are vested in the trustor.[11] The statute does not specify who holds a lien under the trust deed. The trustee would seem to be the one holding the same powers in respect to the lien as the mortgagee. There does not appear to be any substantial difference between the mortgagee's lien and the trustee's title.[12]

TRANSFER OF THE PROPERTY

The debtor has the same general rights with respect to the right to transfer his interest in the property. A transfer of the contract secured by a trust deed also transfers with it the security of the contract. There is no specific statute in the mortgage section that clearly states that a transfer of the contract secured by a mortgage transfers with the mortgage. However, this has been the practice.[13]

Standard forms for the mortgage and trust deeds usually allow the creditor to accelerate the principal and the interest when the debtor transfers the property without the creditor's prior consent. "Due on sale" clauses cannot be enforced in Arizona unless the mortgagee or beneficiary can show that its security is in jeopardy by the transfer of property. The courts have held that unless the security is in jeopardy, such a clause is unlawful restraint on the free alienation of property.[14]

When the beneficiary under a trust deed consents to the transfer and does not accelerate the balance owed on the note or contract, he has the right to charge a fee on the transfer of $100 or 1 percent of the balance on the contract, whichever is greater. However in light of the Arizona Supreme Court's decision on the "due on sale" clauses being applicable only if the security is in jeopardy, it would seem that, under this section, any fee in excess of the actual costs incurred in transferring the account may be unreasonable.[15]

If the trustor transfers his interest in the property, but still remains liable, then the beneficiary or trustee may not increase the interest rate. If the trustor is released from liability, then the interest rate cannot be increased more than one-half of 1 percent. This section applies only to property of 2½ acres or less and used for dwelling units, not to exceed four single-family units.[16]

Property intended for commercial or industrial use does not receive the benefits of this section, and there are no equivalent statutory sections for mortgages.

If the debtor does pay the note or contract in full, the mortgagee or trustee is obligated to record the satisfaction of the obligation. The debtor is entitled to have the release of the lien recorded. If the mortgagee or trustee fails to record the release within thirty days, he is liable to the debtor for any actual damages caused.

DEFAULT

When the debtor defaults on the payment, the creditor's primary concern is to preserve the property

from any waste that may be committed by the debtor. One way to prevent any waste is to take possession of the propert. The mortgagee does not have a right to possession under the statute, but is permitted to expressly reserve that right in the terms of the mortgage.

The trust deed statutes are silent on this point and no cases have been decided. It would seem that a similar right could be reserved in the trust deed. There may be an advantage beyond preventing waste by reserving the right to possess the property. If the creditor had the right to possess the property, the property could then be shown to prospective bidders, much like real estate brokers show real property prior to sale. If a prospective buyer is able to evaluate the property, the bidding under the trustee's sale may more accurately reflect the market value of the property.

Under either a mortgage or deed of trust, the holder of the security interest may elect to sue on the debt. Alternatively, the holder may choose to enforce the rights and have the property sold. However, both remedies cannot be pursued at the same time. A holder may elect to sue on the note or contract if the land has very little or no market value.

ACCELERATION

Once the debtor has defaulted, the holder of the secured interest may have the right to request the full payment immediately. This is called acceleration. Under a trust deed the acceleration must be stopped if the default is remedied. The trustor may pay up the amount in default, and once that amount has been paid, the debt must be restored as if there had been no default.

Under a mortgage, the acceleration clause, if any, is set forth in the terms of the mortgage and is not controlled by statute. The mortgagor is under no obligation to restore the debt as if there had been no default. These cases are settled on a case by case basis and by the policy the mortgagor has adopted in this type of situation.

ENFORCEMENT

The only method for enforcing a mortgage is court action. The outstanding feature of the trust deed is that the trustee may choose between the judicial remedy of foreclosure or the nonjudicial remedy of the trustee's power of sale, thus avoiding the lengthy and costly court procedure. The trustee has the option open until the dare of the private sale. The foreclosure action must be dismissed before the trustee can hold his sale. The trustee's sale or the foreclosure action must be started before the statute of limitations has expired for pursuing an action on the debt that supports the trust deed. The creditor usually decides to pursue his interest under the security instrument when he wants the property sold. Thus, he is more assured of being able to obtain money from the sale of the property, which he can apply to the debt owed to him.

Under a trust deed, once the debtor defaults in payment to the beneficiary, the beneficiary must notify the trustee. The trustee is under a duty to the beneficiary to act promptly. A series of notice requirements is required by statute with which the trustee must comply.

Notice is first given to the debtor that he is behind in his payments. If there is no response, a written notice of sale must be published in a newspaper in each county where the trust property is located. The notice must be published at least once a week for four consecutive weeks, and the date of the last publication cannot be less than ten days nor more than thirty days prior to the date fixed for the sale. At least twenty days before the sale a notice of the sale must be posted in some conspicuous place on the property itself, if there is no breach of the peace to do so. A public notice must be posted and recorded at the court house in each county where the property is located. Notice must also be sent not later than thirty days after the recording of the notice of sale to all persons who have a recorded interest in the property.[17] Notice by certified or registered mail must be mailed to each person who is a party on the trust deed. General creditors of the trustor and any subordinate lienholders who are not of record may record a request for a copy of any such notice of sale in the county recorder's office where the real property is located. These people must also be given notice no later than thirty days after the recording of the notice of sale.

Ninety days after the notice of sale has been recorded, the trustee may hold the sale. The sale must be held in one of three places: the property itself, the court house, or the principal place of business of the trustee. The trustee is legally responsible for the conduct of the sale, and anyone, including the trustee or beneficiary, may bid at the sale. The sale is by public auction and is for cash to the highest bidder.[18]

If the property is large enough, the trustee must take conditional bids on the property both as a whole and in designated lots. From this method the trustee can ascertain which method will produce the highest price. Each bid is an irrevocable offer until the sale is complete. The statute does not require the trustee to

stop the sale when enough of the land has been sold to satisfy the outstanding balance on the note or contract.

The sale may be delayed if there has been a request for a reasonable delay.[19] If the trustee determines that it is in the interest of the beneficiary, trustor, or both, to postpone or continue the sale at a later date, he may give notice by public declaration at the time and place where the sale was to take place. The trustee must state when the sale will resume.

Once the sale has been completed, the trustee must deliver the trustee's deed to the purchaser, and the deed must be executed in accordance with the statutory requirements, acknowledged and recorded. The purchaser receives title which is absolute; it is not subject to any redemption right of the trustor and it is clear of any subordinate liens to the original trust deed. The trustee's deed is conclusive evidence of compliance with the notice requirements by the trustee. The purchaser is assured that his purchase is free from attack by others who were involved in the transaction. The trustor may successfully attack the validity of the sale and recover damages against the trustee, but may not regain possession of the property against the good faith purchaser.

As to the purchaser who was not in good faith, the trustee's deed raises only a presumption of compliance. If there was some defect in the presale requirements, the trustor could successfully challenge the sale and dispossess the purchaser, thus regaining the property.

When property is sold under a judicial foreclosure, the official who is handling the sale may sell only as much of the property as necessary to satisfy the foreclosure judgment. If the debt is not all due, then only enough of the property necessary to pay the amount due may be sold. The court may direct more parts of the real property sold as the debt comes due and is not paid. However, if the property cannot be sold in portions without injury, then the whole piece may be sold as a unit.

REDEMPTION OR REINSTATEMENT

Related to the acceleration provisions are the redemption and reinstatement provisions. These provisions allow the debtor to get his property back.

The trust deed statutes provide that the cure of the default must occur before the date of the trustee's sale or before the filing of any action to foreclose the trust deed. The debtor has a minimum of ninety days to reinstate the note or terms of the contract by paying the amount of the default. After reinstatement, the statutes state specifically, "The contract and trust deed shall be deemed reinstated and in force as if no breach or default had occurred . . ." Because this is a statutory reinstatement right, the debtor would be protected against any predefault waiver in the trust deed.[20]

The trustee is under an obligation to record the cancellation of the recorded notice of sale. If the trustee fails to do so within thirty days after the reinstatement, he is liable for all actual damages resulting from his lack of action.

If the debtor has a mortgage or if the trust deed is judicially foreclosed, the property may be redeemed by the debtor within a six month period after the foreclosure sale. The Arizona Supreme Court has held invalid a post-default waiver of redemption signed by a debtor.[21] The legislature gave the mortgagor six months to redeem his property by granting him a statutory time limitation during which he could pay the obligation. The legislative protection cannot be violated by any agreement to the contrary.

POSSESSION AFTER SALE

Once the property has been sold, the new purchaser needs to be able to take possession of the property. If the property is sold by a foreclosure proceeding, the debtor must deliver possession of the foreclosed property after the redemption time has ended. If the debtor remains in possession after the time period has expired, the court may issue a writ of possession. Only a short time is needed to obtain a writ.

If the property is sold under a trustee's power of sale, the purchaser has no statutory right to possession. If the debtor stays in possession, the purchaser's remedy is a court action called a forcible detainer.[22]

Once the property has been sold, the trustee must dispose of the proceeds in accordance with the statute, but he must first satisfy all the costs, fees, expenses, and obligations. Once all these items have been paid, the trustor is entitled to any surplus. The trustee may elect to pay any one or more of the obligations or may deposit the balance of the proceeds with the clerk of the superior court. This deposit of funds will discharge the trustee from any liability for acts performed in good faith. Those creditors who remain unpaid may then apply to the court for an order directing payment of funds to which they are entitled.

A similar provision exists under the mortgage statutes. If the property is sold under a foreclosure sale, the officer directed to hold the sale receives the payment. The lienholders are then paid in the order of their security interest as it stands in relation to other

secured interest, and if surplus remains, the balance is paid to the debtor.

DEFICIENCY

If the proceeds from the sale are not enough to satisfy the payment of the debt, the creditor may obtain a judgment for the balance. The judgment is known as a deficiency judgment.

In certain circumstances, the creditor may be precluded from obtaining a deficiency judgment. Under a trust deed when the property was sold under the trustee's power of sale, the creditor has no right to the deficiency unless he obtains a court order for a deficiency judgment. Under a mortgage, the statute states that the court may issue a writ of execution to recover the balance.

The express language in a trust deed may prohibit any personal recovery against the debtor. Although there is no statutory authorization for a mortgage to state that there will be no personal recovery against the debtor, the practice is not prohibited. The creditor has waived the right to sue on the debt. In effect, he has agreed to take only the money from the sale of the property in case of default. This is commonly called a nonrecourse security interest.

Under the trust deed, which is sold by the trustee's power of sale, no deficiency judgment may be obtained against the trustor when the property is of 2½ acres or less and is limited to and utilized for single one or two family dwellings. A similar type of provision is available if the property was secured by a mortgage, but under the mortgage statute, only a purchase money mortgage is placed in the exempt status. The same limitations concerning 2½ acres utilized for single one or two family dwellings applies. The statute is strict in its protection of the consumer by not allowing any agreement to the contrary.

CONCLUSION

The question is often asked by the potential debtor which security is best for him. The outstanding feature of the trust deed is the creditor's right to elect between the lengthy judicial foreclosure or the quicker route of the trustee's power of sale. The debtor does not have the six-month redemption period under the trust deed, but then he does not have to pay the whole debt if he is able to make up the amount of the default before the sale. If he is under a mortgage, he may have six months after the sale to redeem the real property, but he must also pay the whole amount of the debt. Each type of security interest has its advantages and disadvantages for both the creditor and the debtor.

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[1]*Arizona Revised Statutes Annotated* Sec. 33-701, 730 covers mortgages. Sec. 33-801, -821 covers deeds of trust. Although the legal profession interchanges the words *deed of trust* and *trust deed*, generally those who work in the title companies and escrow companies distinguish between the two words. The deed of trust is a security instrument while the trust deed is a deed granted by a true legal trust which is a legal entity. Surprisingly, apparently no statistics have been kept to measure the impact of the deeds of trust on mortgages.

[2]*Andreola v. Ariz. Bank*, 26 Ariz. App. 556, 550 P.2d 110 (1976).

[3]*Patton v. First Federal Savings and Loan Ass'n*, 118 Ariz. 473, 578 P.2d 152 (1978).

[4]*Ariz. Copper Estate v. Watts*, 237 F. 585, 150 C.C.A. 467 (1916).

[5]Under the statute of frauds, the oral agreement may be unenforceable in a court but is otherwise valid. If the parties want to enter into an oral agreement, it should not be referenced in the trust deed or mortgage. The recital may constitute a legally sufficient writing to remove the statute of frauds. See *T. D. Dennis Builder Inc. v. Goff*, 101 Ariz. 211, 418 P.2d 367 (1966); *Young v. Bishop*, 88 Ariz. 140, 353 P.2d 1017 (1960).

[6]Notice of the substitution of the trustee must be recorded and copies sent by registered or certified mail to the trustor, the trustee, and the successor trustee.

[7]The trustee holds only bare record title. The recording of the notice of substitution should be sufficient to transfer the title to the successor. See *Wister v. Bank of Malpitas*, 204 Cal. 570, 269 P.614 (1928).

[8]The deed must be distinguished from the contract to purchase the real property. The deed must be in writing, acknowledged and delivered before it can be a valid conveyance of the title to the real estate. The contract need not be in writing to be valid.

[9]*Fremming Const. Co. v. Security Savings and Loan Ass'n*, 115 Ariz. 514, 566 P.2d 315 (1977); *Steinfeld v. State*, 37 Ariz. 389, 294 P.834 (1930); *Cooley v. Veling*, 19 Ariz. App. 208, 505 P.2d 1381 (1973).

[10]See *Hamel v. Gootkin*, 202 Cal. App.2d 27, 20 Cal. Rptr. 372 (1962).

[11]*Buck v. Superior Court*, 232 Cal. App.2d 153, 42 Cal. Rptr. 527, *cert. denied*, 382 U.S. 834 (1965); *Macleod v. Moran*, 153 Cal. 97, 94 P.834 (1930).

[12]The title-lien distinction may be significant under other statutory provisions that refer only to a mortgage or lien. See e.g., *Ariz. Rev. Stat. Ann.* Sec. 10-769; 14-565, -577, -592, -602; 33-1104(C).

[13]See *Ariz. Rev. Stat. Ann.* Sec. 33-701, -702. *Scafidi v. Puckett*, 118 Ariz. 589, 578 P.2d 1018 (1978). *Patton v. First Federal Savings and Loan Ass'n*, 118 Ariz. 473, 578 P.2d 152 (1978).

[14]*Ariz. Rev. Stat. Ann.* Sec. 33-806.01(A). *Patton v. First Federal Savings and Loan Ass'n*, 118 Ariz. 473, 578 P.2d 152 (1978); *Baltimore Life Insurance Co. v. Harn*, 15 Ariz. App. 78, 486 P.2d 190

(1971); *Wellenkamp v. Bank of America*, 21 Cal.3d 943, 148 Cal. Rptr. 379, 582 P.2d 970 (1978); *Tucker v. Lassen Savings and Loan Ass'n*, 12 Cal.3d 629, 116 Cal. Rptr. 633, 526 P.2d 1169 (1974).

[15]Ibid.

[16]*Ariz. Rev. Stat. Ann.* Sec. 33-806.01(D). This is the only section which applies to four dwellings. *Ariz. Rev. Stat. Ann.* Sec 33-729 -814(E) apply to property of two and one-half acres which is limited to and utilized for either a single one or two family dwelling. It is presumed that Sec. 33-806.01 applies also to either single one or two family dwellings (or even three dwellings) in addition to the four dwellings. There is no legislative history to explain this distinction, and there appears to be no real basis for this distinction.

[17]*Ariz. Rev. Stat. Ann.* Sec. 33-809(B) (92) Fixtures are deemed to be part of the realty and are automatically included as security in the transfer. A creditor who holds a security agreement involving fixtures should have filed a financing statement as a fixture filing in the county recorder's office where the real property is located. Since the legal determination of what personal property has been converted to a fixture is one to be decided by the courts, the creditor should have filed the financing statement as a precautionary measure. The fixtures may be subject to the *Uniform Commercial Code*. See *Ariz. Rev. Stat. Ann.* Sec. 44-3102(A), -3104(10); Id. Sec. 44-3134. For the requirements of a fixture, see *Gomez v. Dykes*, 89 Ariz. 171, 359 P.2d 760 (1961).

[18]Although the statute specifies cash in one section, other forms of payment are permissible since later in the same section, it also states "in form satisfactory to the trustee." *Id.* Sec. 33-811(A). A check, promissory note, or credit may be extended if the beneficiary consents. See *Nomellini Constr. Co. v. Modest Savings and Loan Ass'n*, 275 Cal. App.2d 114, 79 Cal. Rptr. 717 (1969).

[19]See *Foge v. Schmidt*, 101 Cal. App.2d 681, 226 P.2d 73 (1951).

[20]See *Elson Dev. Co. v. Arizona Savings and Loan Ass'n*, 99 Ariz. 217, 407 P.2d 930 (1965).

[21]Ibid.

[22]*Andreola v. Arizona Bank*, 26 Ariz. App. 556, 550 P.2d 116 (1976).

Limiting Health Care Costs: The Challenge and Dilemmas Facing Business

FRANK G. WILLIAMS
CHARLES L. EVELAND

The increasing cost of health care services continues to be a troublesome issue to business, labor, and government leaders. One government source projects that by 1990, national health expenditures will be between 10 and 12 percent of the nation's Gross National Product, compared to a present level of approximately 8 percent.[1]

Until recently, efforts to contain health care costs have largely been instituted in the public sector. At present, control of the total volume of hospital care available in a particular locality is being attempted through federal legislation.[2] This law requires health care institutions to demonstrate a need for a new service in order to obtain approval for expansion. Another current law, not yet fully implemented, mandates review of the services and number of hospital days of care utilized by a patient.[3] These data are compared to standards of care deemed appropriate for that patient's diagnosis. Medicare and insurance reimbursement may be withheld for unjustified utilization in excess of standards.

Businesses face several dilemmas as they contemplate their role in controlling health care costs. This article explores the problems of efficiency and productivity, rationing, equity, market response, and quality as they relate to health care.

Frank G. Williams is Assistant Professor in the Center for Health Services Administration, College of Business Administration, Arizona State University. Charles Eveland is Professor and Director of the ASU Center.

Price control is manifested at the federal level through limits and incentives in Medicare and Medicaid payments. These reimbursement controls on charges, which have been adopted by Blue Cross in some states but not Arizona, also tend to limit the capital available for technological growth and expansion. Additionally most states, including Arizona, now have some type of rate review program for hospitals and nursing homes.[4]

THE CHALLENGE TO BUSINESS

Many people view the increasing involvement of government in hospital cost control as an inevitable trend toward national health insurance. President Carter's proposal to place a ceiling or cap on total hospital revenues and capital expenditures is seen as the next step. Indeed, one can hardly attend a meeting of health care professionals without hearing a warning that if health care administrators and physicians don't get control of costs, the government will. Debates continue in many forums over how much and what type of government involvement is best, with many people suggesting that health care be made a public utility.

Another movement is gaining momentum however, which calls for the opposite remedy for the health care industry. Supporters of this effort criticize the effectiveness of publicly operated businesses. As expressed not long ago by Congressman Rhodes of Arizona, "If you like the Post Office, you will love national health insurance."[5] Encouraged by successes resulting from deregulation of the airline industry, these advocates

. . . envision a world of medical care delivery in which traditional providers must vie with substantial numbers of 'competing organized systems' which may vary in organizational form from prepaid, group practice HMOs to more loosely organized systems requiring only minor modifications of existing professional arrangements . . . . In all such organizations 'physicians would accept responsibility for providing comprehensive health care services to a defined population for a prospective per capita payment, or some other form of payment that rewards economy in the use of health care resources.'[6]

As the other major payer of health insurance besides government, business is being challenged to provide the leadership, political force and management expertise necessary to stimulate the development of these competing organized systems. The purpose of this article is to explore the issues and dilemmas facing business people as they determine their appropriate role in health care cost containment.

Competing Organized Systems

Competing organized systems differ from conventional health insurance, which is also prepaid, in that in these systems, payments are made by the employer or employee directly to the provider who thus has the incentive to restrain unnecessary utilization. It is generally the health care professional who makes the decisions for the consumer with respect to deciding which goods and services to purchase. The concept of competing organized systems recognizes that a variety of arrangements in addition to the traditional Health Maintenance Organization (HMO) will enhance competition and offer the consumer several choices among providers.

At present, competition among providers is intense, but revolves around nonprice factors. Hospitals, for example, compete for patients by acquiring more equipment and accommodations to compete for physicians. Price competition, however, will require major structural changes in the health care market which can only be accomplished with the support of business. As stated by William C. Norris, Chairman and Chief Executive Officer of Control Data Corporation:

It is clear that business will have to be the principal source of initiative to bring about the desired improvement in our health care system. Business involvement in health care delivery has been mainly in paying the bills and perhaps, in so doing, compounding the problem. But there is a growing awareness that business is a significant stockholder in the health care system.[7]

Implied in this statement is not only the need for businesses to do something about their health care costs, but an awareness that nationalization carries implications for all private industry and management's commitment to the free enterprise system, considering the emergence of the health industry as the nation's largest industry in number of employees.[8] Undoubtedly for these reasons, in part, the National Chamber Foundation, an affiliate of the Chamber of Commerce of the United States, recently released a series of reports entitled "A National Health Care Strategy" to provide companies, associations and communities with a practical guide for promoting and working toward a competitive health care system.[9]

THE DILEMMAS OF SUPPORTING COMPETITIVE ORGANIZED SYSTEMS

Business firms, of course, are already involved in health care. They are principal payers of insurance. In addition, they often provide direct medical care for employees. As payers, many business managers are aggressive in areas such as claims review and auditing, self-insurance, design and control of benefit packages, and rate negotiation. As providers, businesses continue to respond to requests from researchers, labor groups and the Occupational Safety and Health Administration, among others, to provide even more medical personnel for employees and to implement special programs in such areas as stress and alcoholism treatment. Less recognized, however, is the role of business as a consumer of health care. Business people are active on hospital boards of directors, in community health agencies and in community health planning bodies.[10] Nevertheless, most Arizona company executives are similar to their peers in firms throughout the country in that they are active only to a limited extent in direct health care cost containment.

Many reasons have been offered to explain the conservative role that many business leaders take in health care cost containment, including the following reasons identified by the National Chamber Foundation:

- The problem is too big.
- National Health insurance will take over anyway.
- Health benefit costs are relatively minor.
- We lack experience in this area.
- Employees won't like our involvement.
- Health care is out of our territory.
- We'll be at odds with providers.[11]

These and similar comments by business leaders reflect legitimate, though debatable, concerns. Moreover, these comments are symptomatic of serious underlying dilemmas that managers face if they attempt to stimulate alternatives to government control. These

dilemmas are in the areas of efficiency and productivity, rationing, equity, market response, and quality.

Efficiency and Productivity

If one were to ask whether or not hospitals, physicians, and other health care providers are generally efficient and productive, the question could honestly and correctly be answered either yes or no. Industrialization and automation of the process of providing health care has not occurred. Services are provided by an individual physician-craftsman almost entirely on a one-to-one basis as in a small business. The hospital itself is not a centralized, coordinated health care system. It is a collection of individual departments or shops under one roof.

When new technology is introduced in health facilities, the effect is generally not an increase in productivity. New medical technology nearly always requires more facilities, more and better trained personnel, and more complicated quality control and planning mechanisms. Thus, inflation aside, the hospital patient day still costs more to produce than it did yesterday, making it appear that hospitals are declining in productivity.[12] As Hogan concluded in his analysis of hospital cost inflation in this state,

> Arizona hospitals, and those throughout the nation have instituted a variety of cost control activities . . . . aimed at increasing the hospital's efficiency . . . . (However,) the most important reason for the very rapid rise in hospital costs was the systematic pattern of changes in the type and amounts of care provided by hospitals — shifts toward increasingly more sophisticated, more intense, and more expensive care.[13]

Ironically, the recent successes in reducing hospital cost increases resulting from the "Voluntary Effort" campaign of the American Hospital Association are, in many cases, being achieved through limits in the growth of the quantity and intensity of services available. The intention of the President's proposed cap on total hospital revenue increases is to achieve a similar result. In general, it can be argued that health care providers do what they do reasonably efficiently and productively. The real problem is that health care delivery processes themselves are inefficient by usual production standards.

There are reasons why health care retains the characteristics of small business. Not too many consumers appreciate the notion of a hospital as a factory, with patients being anesthetized and put on an assembly line for "treatment." Certainly, the loss of individual craftsmanship and creativity that usually results from industrialization carries with it a price. Nevertheless, compromise may be achievable. The fast food industry has already demonstrated that public acceptance of efficiency and change can be achieved in a service industry. Nevertheless, one wonders at the tradeoffs that presumably would be involved in a health clinic operated like a McDonald's, which illustrates the dilemma faced by businesses seeking to be more active in health care cost containment. Business leaders are being asked to encourage and promote efficiency through competition at a time when health care institutions, particularly large hospital systems and HMOs are already being criticized for being too depersonalized with insufficient consideration of the sociopsychological aspects of patient health.

In actuality the significant savings achieved by prepaid groups so far has largely been a result of control of utilization and the greater use of paraprofessional personnel, rather than through automation. The prepaid concept with an emphasis on efficiency has been around a long time. Today, HMOs enroll "a total of seven million members, give or take, while Blue Cross-Blue Shield and insurance enrolled 180 million Americans in a single generation. Many reasons have been suggested, but it may be that the simplest reason is nearest to the truth: That's the way the doctors and the people want it."[14] Undoubtedly, most people will continue to prefer the health care provided by physician-craftsmen as long as it is "paid for" by their employers and as long as they are not educated to the fact that they eventually pay through such secondary means as lower wages or higher prices. Business leaders who recognize that their support of a more efficient health care system may not be popular with employees, customers, and providers do, indeed, face a very real dilemma.

Rationing

Much attention has been given recently in health care and energy to the notion of rationing. In most situations where consumer wants exceed available goods and services, the market mechanism automatically solves the age-old triad of distribution problems by determining what goods and services are to be distributed and to whom; who is to profit from the production and delivery of these goods and services; and who pays for the goods and services.[15]

In health care, however, market forces fail to achieve desired results. Part of this is a result of the increasing coverage of health insurance. At times of ill-

ness, health insurance removes from physicians and consumers nearly all financial constraints on utilizing more services. The usual reimbursement of hospitals and physicians on the basis of costs or charges encourages higher fees and the development of more expensive facilities and services. Through adjustments in benefit packages, many employers have attempted to reintroduce market constraints and financial responsibility on the part of the consumer by using deductibles and coinsurance. Employees naturally resist these attempts to increase their out-of-pocket expenses. Additionally, the ability of consumers to reduce health care costs is limited by their reliance on physicians to determine the amount and type of services that are needed. The cost-containment effect of out-of-pocket consumer payments is also questionable, since the consumer could feel encouraged to put off needed treatment until the condition becomes serious. Market constraints on consumers have limited effect and must also be directed to physicians, hospitals and other providers.

If one assumes that there is a limit to the total resources that any society can devote to medical care, then, at some point rationing must occur. Business, community, and health care leaders face another dilemma in deciding whether to get involved in the development of market competition among competing organized systems to achieve this necessary, but unpopular rationing of health care services. As expressed by one critic of national health insurance not willing to accept market control, "when it comes time to decide whether to use some newfangled contraption on me, I want the decision to be made by a physician, not an accountant."[16]

Equity

Decisions on the rationing and distribution of health care may be made in the marketplace or by the public through governmental processes. Those supporting government control argue this process is necessary to assure equity in the distribution of health care resources and guarantee health care to all Americans. It is argued, in fact, that the real purpose of government regulation is not to correct market deficiencies at all, but to transcend markets altogether in favor of social policies guaranteeing equal access to health care services.[17]

Supporters of the development of market forces in health care, on the other hand, point to such means as tax credits and benefits similar to food stamps to achieve equity. This would not preclude competition among providers, but it may do away with facilities presently providing indigent care since experience has shown that people with such credits tend to patronize nonpublic facilities. Thus, even if they support competing organized systems, business leaders face the dilemma of realizing that nonmarket mechanisms must still be utilized to achieve equity. A presumption seems to exist in some quarters that all components of medical services are of equal value and essential, with little discussion about a basic "floor" of health services that might be considered by some as a right for all individuals. With little agreement and understanding as to what services should constitute this basic health care, it is still uncertain that competitive market forces can achieve long-run cost relief. Significant need and opportunity will remain for redistribution and transfer of all potential resource savings to meet the health care needs of all citizens.

Another dilemma related to the issue of equity and access stems from the fact that market competition would force many financially marginal and inefficient hospitals out of business. Most of these facilities survive now only because of cost-based reimbursement by insurance companies. However, included in this category are many small hospitals in rural communities and larger hospitals in declining inner cities. The impact of market competition would add the criteria of economic feasibility to that of individual needs in determining the location of hospitals and other medical facilities. Keen price competition among other institutions would not permit them to support rural or inner city services at a loss. Again, nonmarket mechanisms will be required to provide services and access to certain segments of the population.

Market Response

The introduction of market forces into health care would presumably achieve efficiency through the prepayment mechanism. Providers receive a fixed prepayment in advance in return for a guarantee to furnish, within limits, all the health care services the subscriber needs during the contractual period. Thus, physicians and other partners in an alternative delivery system, such as the HMO, are rewarded for not utilizing unnecessary or overly expensive facilities and services. Price competition among alternative systems helps assure that these savings are passed to employers and other purchasers of health care. This creates another major dilemma for business. Employers, as purchasers of care must also respond to these market forces if costs and

utilization are to be curbed. As one author has noted:

> You'll be faced with a tough set of decisions as the prices of these two (prepaid and conventional) packages begin to pass each other. And I hope that industry's way of coping with it will not be to increase the scope of the benefits on the HMO side — by offering prepaid dental and the like — in order to equalize the costs, because that will just drive up the costs of both sides. Better to equalize the costs by cutting benefits on the more costly side.[19]

Limiting the growth in the scope of benefits covered by insurance in order to take advantage of cost savings will not be easy. As pointed out previously by Morehart and Rue in *Arizona Business*, the impact of rising health care costs on businesses has been particularly significant over the last several years because of the increasing proportion and scope of total health care costs that are covered by insurance. Since an estimated 80 percent of U. S. employees have all or most of their health insurance premiums paid by their employers, businesses are incurring increasing proportions of these rising costs.[20]

A principal reason for increased employer coverage is that health insurance is a deductible business expense and not taxable as part of an employee's personal income. A dollar spent by the employer will purchase more insurance than would the same dollar paid as a wage and taxed.[21] Thus, it is not surprising that in Arizona only 8.5 percent of firms with 40 or more employees do not provide medical insurance.[22] Employees have had a significant tax incentive to bargain for generous employer provided health benefits. For this reason future alternative delivery systems may be encouraged to compete not on the basis of price, but by developing and marketing additional services and amenities. Support of the development of a competitive organized system of health care by business leaders carries with it the opportunity and obligation for restraint in the negotiation of benefit packages.

Quality

With respect to the issue of quality, business people face a different type of dilemma in supporting the development of competing organized systems of health care. Traditionally HMOs and prepaid groups have been troubled by an image of offering a depersonalized quality of care. Primarily this seems to be based on consumer reactions to organized systems of health care relative to their feelings concerning individual practitioners. Additionally, there is a concern that prepayment incentives to eliminate unnecessary services also tend to encourage HMO providers to be overly conservative in the provision of needed resources.

Research studies have not demonstrated inherent differences in quality in prepaid health care systems. Rates of surgery and hospitalization are less in HMOs, but it is not clear whether HMOs provide too little, or fee-for-service practitioners provide too much. In practice, HMOs are generally very concerned about their quality image and often develop more formal control mechanisms than exist in private practices. Moreover, newer types of competing organized systems, such as the Individual Practice Association, utilize physicians who practice in their private offices.

Nevertheless, employees do not always appreciate these factors, and they may tend to resist employers who encourage the utilization of competing organized systems. "People who have been sick usually do not complain about the technical inadequacies of their care. They complain, rather, that their doctor did not listen to them, did not explain things, never stopped to find out what the patient thought."[23] There is the potential that "competing organized systems," necessarily concerned with efficiency may become large and bureaucratic to the point of forgetting the human elements of patient care. On balance, business should continue to maintain existing insurance coverages that enable some employees to utilize fee-for-service physicians. This will provide employees a choice and stimulate competition to assure maintenance of quality standards of care among all types of provider organizations.

APPROPRIATE ACTIONS FOR BUSINESSES

As a major provider of health care insurance and services, business recognizes the need to slow the rapid escalation in health care costs. In addition to considering support of competing organized systems and making them available to employees, businesses should direct efforts in the following areas to help contain health care costs:

- Review claims of employees for ineligibility, duplicate reimbursement and discrepancies.
- Audit health related costs.
- Coordinate benefits to reduce duplicate payment by more than one insurance carrier.
- Analyze employee utilization and incentives.
- Investigate the feasibility of self insurance.
- Initiate health promotion programs for employees.
- Assess benefit packages and their administration.

Most HMOs and other types of competing organized systems do not have their own hospitals. For this

reason, efforts to foster competition in health care tend to be viewed as complementary to activities to control hospital revenues rather than as substitutes for it. Business leaders should be active in agencies for health planning and rate regulation, and businesses should decide if they should support hospital efforts in voluntary cost control or support additional cost control legislation.

Business leaders should also take more interest in hospital cost containment as members of hospital boards of directors, and should assume the same kinds of commanding roles that have pushed their own organizations forward.

CONCLUSION

Involvement in health care will bring business directly into the many issues and dilemmas currently troubling health care planners and providers. Business support and expertise will be extremely valuable, but participation will be a most demanding and frustrating task. Business leaders will often ask themselves if their interests and those of their employees might be better served by letting government assume the responsibility for health care cost control. It is the hope of many that business will rise to the challenge and provide the leadership and force necessary to help develop a competitive health care market.

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[1]Executive Office of the President. Council on Wage and Price Stability. *The Complex Puzzle of Rising Health Care Costs*, (Washington, D.C.: USGPO No. 052-003-00255-8, December 1976), pp. 77, 93.

[2]National Health Planning and Resources Development Act of 1974, P.L. 93-641.

[3]Social Security Amendments of 1972, P.L. 92-603.

[4]For a more detailed discussion on current controls see C. S. Rowley, "Arizona Programs for Controlling Health Care Costs," *Arizona Business*, 24 (August/September 1977): 20-27.

[5]Congressman John J. Rhodes in a speech before the Annual Meeting of the Arizona Hospital Association, May, 1977.

[6]J. B. Christianson and W. McClure. "Competition in the Delivery of Medical Care." Report of a study released by InterStudy, Excelsior, MN, September 27, 1978, pp. 1-2.

[7]William C. Norris, "The Pathway to Better Health Via Technology," *Control Data Corporation Perspectives*, No. 11, June 1979, p. 7.

[8]D. C. Walsh and R. H. Egdahl. *Payer, Provider, Consumer: Industry Confronts Health Care Costs*. Springer Series on Industry and Health Care, No. 1. New York: Springer-Verlag, 1977, p. 3.

[9]National Chamber Foundation, "How Business Interacts with the Health Care System," *A National Health Care Strategy*, a series of five reports on business involvement with health. (Washington, D.C.: National Chamber Foundation, 1978) p. vii.

[10]Walsh and Egdahl, *Payer, Provider, Consumer*, pp. 10-89.

[11]National Chamber Foundation, "How Business Interacts with the Health Care System," pp. 11-12.

[12]It is more logical to measure productivity relative to outcome or "cure." Unfortunately, measurement is extremely difficult since so many factors besides health care, such as lifestyle, environment, behavior and individual differences affect the results of a patient's treatment.

[13]T. D. Hogan. "Hospital Cost Inflation in Arizona," *Arizona Business*, 25 (May 1978):24.

[14]R. M. Cunningham, Jr. "Who Really Likes HMOs?" *Hospitals, J. A. H. A.*, Vol. 53, No. 12 (June 16, 1979), p. 101.

[15]U. E. Reinhardt, "Health-Care Expenditures and the Economics of the 'Health Care Trough' " Presentation to the National Health Leadership Conference on American Health Policy, Washington, D.C., April 29-30, 1976, p. 16.

[16]R. Robb, "National Health Insurance," *Today's Business*, March 1979, p. 95.

[17]Robert A. Milch. "Cost Reimbursement and Price Competition in the Hospital Industry." *Health Care Management Review*, 4 (Spring 1979): pp. 53-54.

[18]Walsh and Egdahl, *Payer, Provider, Consumer*, p. 95.

[19]Ibid., p. 31.

[20]T. B. Morehart and J. Rue, "The Impact of Health Insurance and Health Care Costs in Business," *Arizona Business*, 24 (January, 1977), p. 10.

[21]Walsh and Egdahl, *Payer, Provider, Consumer*, p. 20.

[22]M. N. Wolfe, W. B. Werther and G. W. Bohlander, "Employee Benefits in Arizona," *Arizona Business*, 24 (October 1978): p. 27.

[23]Eric J. Cassell. "The Commodity View of Medicine," *The Wall Street Journal*, April 30, 1979.

[24]National Chamber Foundation, "How Business Can Use Specific Techniques to Control Health Care Costs," p. 25.

The Arizona Business Scene

Consumer Debt

The continued rise in consumer debt has become a source of recent concern at both the national and local levels. For purposes of analysis consumer debt is most often divided into three categories — installment credit, noninstallment credit and mortgage debt. By December of 1978, outstanding consumer installment credit in the United States totaled over $275.6 billion, noninstallment credit stood at $64.3 billion, and outstanding home mortgage debt had reached almost $762 billion.

INSTALLMENT AND NONINSTALLMENT CREDIT

Consumer installment credit is generally defined as short-term and intermediate credit extended to finance personal consumption of goods and services and scheduled to be repaid in two or more installments. Table 1 displays the total amount of installment credit outstanding from 1971 to 1978 for the categories of automobile, revolving, mobile home and *other* credit. From 1971 to 1978, total installment credit increased by slightly over 133 percent. The largest increase over the eight-year period occurred in the category of revolving credit which grew by over 450 percent. This recent growth in the importance of revolving credit (i.e., credit cards, retail charge accounts, etc.) is also reflected in changes in the percentage distribution of total consumer installment credit.

Table 2 shows the relative percentages for the four major types of installment credit from 1971 to 1978. In 1977, the percentage of credit categorized as revolving increased from 8.9 percent in 1976 to 17.0 percent, and the dollar amount of revolving credit outstanding more than doubled. Automobile installment loans account for the largest proportion of categorized installment credit. From 1971 to 1978, the amount of outstanding

TABLE 1

TOTAL OUTSTANDING CONSUMER INSTALLMENT CREDIT IN UNITED STATES DECEMBER, 1971 — DECEMBER, 1978
(In millions)

Year	*Automobile*	*Revolving*	*Mobile Home*	*Other*	*Total*
1971	$ 40,519	$ 8,528	$ 7,226	$ 61,982	$118,255
1972	47,862	9,700	9,526	66,085	133,173
1973	53,772	11,709	13,580	76,047	155,108
1974	54,266	13,681	14,642	82,005	164,594
1975	57,242	15,019	14,434	85,658	172,353
1976	67,707	17,189	14,573	94,508	193,977
1977	82,911	39,274	15,141	93,503	230,829
1978	102,468	47,051	16,042	110,079	275,640

Source: Data supplied by Division of Research and Statistics, Board of Governors of the Federal Reserve System.

TABLE 2

PERCENTAGE OF OUTSTANDING CONSUMER INSTALLMENT CREDIT BY MAJOR CREDIT TYPE UNITED STATES, 1971-1978

Year	*Automobile*	*Revolving*	*Mobile Home*	*Other*	*Total*
1971	34.3	7.2	6.1	52.4	100.0
1972	35.9	7.3	7.2	49.6	100.0
1973	34.7	7.5	8.8	49.0	100.0
1974	33.0	8.3	8.9	49.8	100.0
1975	33.2	8.7	8.4	49.7	100.0
1976	34.9	8.9	7.5	48.7	100.0
1977	35.9	17.0	6.6	40.5	100.0
1978	37.2	17.1	5.8	39.9	100.0

Source: Computed from data supplied by the Division of Research and Statistics, Board of Governors of the Federal Reserve System.

automobile credit increased by over 150 percent and currently accounts for over 37 percent of total consumer installment credit.

The relative shares of installment credit by type of holder are shown in Table 3. Almost half of the consumer installment credit is held by commercial banks. Over the eight-year period from 1971 to 1978, the share of credit held by finance companies decreased from 24.7 percent to 19.7 percent. The proportions held by retailers and gasoline companies also decreased. Significant gains in relative share were made by commercial banks, credit unions, and savings and loan associations.

TABLE 3

PERCENTAGE OF CONSUMER INSTALLMENT CREDIT BY MAJOR TYPE OF HOLDER UNITED STATES, 1971-1978

Major Holder	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*
Commercial Banks	46.5	48.5	48.9	48.6	48.1	48.3	48.7	49.4
Finance Companies	24.7	23.9	22.8	21.9	20.9	20.1	19.4	19.7
Credit Union	12.5	12.7	12.7	13.3	14.9	16.1	16.3	16.7
Retailers	12.0	11.2	10.7	11.0	10.6	10.0	10.2	9.0
Savings & Loans	1.3	0.9	2.3	2.6	3.0	3.2	3.2	3.0
Gasoline Companies	2.2	1.9	1.7	1.6	1.6	1.5	1.3	1.2
Mutual Savings Banks	0.8	0.8	0.9	0.9	1.0	0.9	0.9	1.0
Total	100.0	99.9	100.0	99.9	100.1	100.1	100.0	100.0

Source: Computed from data supplied by the Division of Research and Statistics, Board of Governors of the Federal Reserve System.

In Arizona, total figures on consumer installment credit are not available. Outstanding credit held by commercial banks is available through June of 1978. From 1971 to mid-1978, outstanding consumer installment credit held by Arizona commercial banks increased by almost 95 percent to over $1.7 billion. Of course, this amount may reflect less than half of the outstanding credit because it does not include amounts held by finance companies, credit unions, retailers, and savings and loan associations in the state.

Consumer noninstallment credit is defined as debt to be repaid in a lump sum, including single-payment loans, charge accounts, and service credit. Like installment debt, the amount of outstanding consumer noninstallment credit has been increasing at an accelerated pace in the last year. In 1978, noninstallment debt rose by 9.7 percent in the United States. Noninstallment credit data for Arizona are not available.

MORTGAGE CREDIT

The largest component of national consumer debt is home morgage credit. As is shown in Table 4, home mortgage debt has increased by almost 148 percent since 1971. The recessionary housing slump of 1974-1975 is reflected by the reduced increases in mortgage debt for those years. Over the eight-year period, the average purchase price for newly-built, single family homes under conventional mortgages increased by approximately 72.5 percent and the mortgage term to maturity increased by almost two years. Preliminary figures available from the Federal Home Loan Bank Board show an average new home purchase price in August, 1979, of $80,700 — up 122 percent since 1971. The average purchase price in August, 1979, for previously-occupied, single-family homes under conventional mortgages, is estimated to be $68,600, an increase of 116 percent over 1971 prices.

TABLE 4

OUTSTANDING HOME MORTGAGE DEBT IN THE UNITED STATES 1971-1978

Year	*Dollar Amount (in millions)*	*Annual Percentage Change*
1971	507,241	+ 9.8
1972	572,793	+ 21.3
1973	416,883	+ 11.8
1974	449,371	+ 7.8
1975	490,761	+ 9.2
1976	556,557	+ 14.6
1977	656,566	+ 18.0
1978	761,905	+ 16.0

Source: Federal Reserve Bulletin, Board of Governors of the Federal Reserve System.

In addition to the rapid escalation of home prices, recent increases in mortgage interest rates have contributed to the growth of home mortgage debt in the United States. Current contract rates for conventional home mortgages are at an historical high approaching 11 percent with effective rates of 11.02 percent for new homes and 11.4 percent for previously-owned homes. Approximately three-fourths of home mortgage debt is held by private financial institutions. Savings and loan associations hold almost 47 percent of total home mortgage debt, commercial banks hold approximately 17 percent, mutual savings banks hold 8 percent, and life insurance companies hold approximately 2 percent.

Mortgage debt in Arizona has reflected the national trend of accelerated growth in amount of debt outstanding, average purchase price, and mortgage interest rate. By June, 1978, outstanding home mortgage debt in Arizona had exceeded $5.3 billion. Preliminary figures for Maricopa County show an average conventional mortgage purchase price in August, 1979, of $87,000 for a new home and $76,600 for a previously-occupied home. Effective conventional mortgage interest rates in Phoenix have risen to 11.2 percent for new homes and 11.3 percent for previously-owned homes. Table 5 displays outstanding home mortgage debt held by Arizona commercial banks and savings and loan associations. As shown, savings and loan associations hold almost three times as much home mortgage debt as commercial banks in Arizona.

TABLE 5

OUTSTANDING HOME MORTGAGE DEBT IN ARIZONA
1973-1978
(In thousands)

Year	*Savings & Loan Associations (FSLIC Insured)*	*Commercial Banks (FDIC Insured)*	*Total*
1973	$2,022,298	$1,163,070	$ 3,185,368
1974	2,434,245	1,228,087	3,662,332
1975	2,667,490	1,162,972	3,830,462
1976	2,920,166	1,150,129	4,070,295
1977	3,472,054	1,237,174	4,709,228
1978	4,014,982	1,359,903*	5,374,885

*Total as of June 30, 1978

Source: Savings and Home Financing Source Book, Federal Home Loan Bank and *Assets of All Commercial Banks*, Board of Governors of the Federal Reserve System

CONTRIBUTING FACTORS

The recent rapid growth of consumer debt is most often attributed to national and metropolitan inflation rates in excess of 10 percent. A significant portion of the increase in revolving installment credit is due to the use of bank credit cards for convenience and record-keeping. Increases in automobile prices have resulted in a lengthening of installment loan agreements to four and even five years. The increased prevalance of two-income families has also expanded consumer debt capacity. Finally, the percentage of disposable income devoted to savings in the United States has declined from 8.1 percent in 1971 to 5.2 percent in the first quarter of 1979. Although consumers have managed to support an increasing debt burden, an economic slowdown may result in over-extension for a number of Americans.

A Survey of Arizona Business Conditions

HAROLD FEARON*

At long last, there appears to be some good news on the inflation scene, according to the monthly business survey of the Purchasing Management Association of Arizona. The September price increase rate was the smallest so far this year. At the same time, the indicators of new orders received, production, and employment continued to advance at a healthy rate, showing that the Arizona economy so far has remained immune from the much discussed national recession. As we move into the last quarter of the year, it seems certain that 1979 will go into the record books as one of steady, although not outstanding, growth.

Data for the purchasing business survey, now in its eighteenth year of consecutive monthly reporting on the current health of the Arizona economy, are gathered through a questionnaire sent at the close of each month to purchasing managers around the state. The respondents indicate the direction of economic activity in the month just ended — higher, unchanged, or lower. Since these purchasing managers deal daily with the forces of supply and demand, they are in a prime position to provide timely and accurate information on current economic trends.

Prices paid for major purchased items continued to increase in September, and at an unacceptably high rate, although the net increase was the lowest since last October and substantially lower than in the first half of the year. It appears that the rising interest rates are beginning to take some of the steam out of the upward price pressure, as had been hoped. This is an encouraging sign, providing it does not result in a major downturn, and there is no evidence that this is occurring. Sixty-eight percent of the purchasing managers said prices increased in September; 30 percent reported prices unchanged; and 2 percent paid lower prices in September than in August.

Delivery time on shipments from vendors continued to stretch out, and at a rate similar to that of July and August, but still well under the increase rates recorded earlier in the year. Longer delivery times were reported by 45 percent of respondents, compared to 4 percent who received faster service in September. This extension of lead times shows that the economic expansion is continuing, although at a somewhat lower rate.

Inventory levels of purchased materials went up again in September, and at a rate about the same as in the previous two months. Higher inventory was reported by 38 percent of the firms; 21 percent had cut stocks. This net increase rate is lower than those in the first half of the year and shows that inventory levels still remain well under control and do not appear to be any threat to a continuation of the economic upswing.

New orders received from customers, while continuing to increase, went up at a lower rate than in August:

Dr. Fearon is Professor of Management in the College of Business Administration at Arizona State University.

36 percent said they received more new orders in September than in August, which was twice the 18 percent who said their new order rate fell. This was the third lowest net increase this year, and while it is quite acceptable, it shows that the rapid economic expansion which Arizona has enjoyed over the past four years (almost steadily since August of 1975) may now be assuming more modest proportions.

Production experienced a good increase in September and the highest in the past three months. Higher output was indicated by 43 percent; only 12 percent cut output.

Employment went up again, for the forty-fifth consecutive month, and at about the same rate as in August: 37 percent added to their workforce; only 12 percent pared payrolls. While this increase rate was somewhat smaller than during the first quarter of the year, it still indicates that the economy is following a healthy upward path.

As the last quarter of 1979 begins, the Arizona economy is moving forward at a good rate and should finish out the year on a strong note. There is even evidence of some decline in the high rate of inflation, which, if it continues, will further strengthen the Arizona economy's ability to withstand any pressures from a national slowdown.

The results of the September survey are shown in Table 1.

TABLE 1

SEPTEMBER PURCHASING SURVEY

	Percent of Purchasing Managers Indicating Each Response (September compared to August)		
Key Indicators	*Higher*	*Same*	*Lower*
Prices paid for major commodities	68	30	2
Delivery time from vendors	45	51	4
Purchased materials inventory level	38	41	21
New orders received	36	46	18
Production	43	45	12
Employment	37	51	12

Source: Survey of the Purchasing Management Association of Arizona

ARIZONA SALES OF ELECTRICAL POWER
By Months
(In millions of kwh)

Current Month	*Actual*		*Percent Change Current Month From*	
	1979	*1978*	*Same Month Previous Year*	*Previous Month*
August	2,997.0	2,924.2	2.49	-4.95

Source: Based on reports from major suppliers

Arizona New Housing Starts: Monthly Report

AUGUST, 1979

CENSUS DIVISION	BUILDING PERMITS ISSUED 1* Family	Duplex	3-4 Families	5 or More	Housing Units
APACHE COUNTY	17	—	—	—	17
Eagar	4	—	—	—	4
St. Johns	8	—	—	—	8
Springerville	—	—	—	—	—
Uninc. Apache Co.	5	—	—	—	5
COCHISE COUNTY	124	—	—	—	124
Benson	1	—	—	—	1
Bisbee	—	—	—	—	—
Douglas	3	—	—	—	3
Huachuca City	—	—	—	—	—
Sierra Vista	52	—	—	—	52
Tombstone	1	—	—	—	1
Uninc. Cochise Co.	63	—	—	—	63
Willcox	4	—	—	—	4
COCONINO COUNTY	138	—	—	1	163
Flagstaff	64	—	—	1	64
Fredonia	—	—	—	—	—
Page	4	—	—	—	4
Uninc. Coconino Co.	70	—	—	—	70
Williams	—	—	—	—	25
GILA COUNTY	62	—	—	—	62
Globe	1	—	—	—	1
Hayden	1	—	—	—	1
Miami	—	—	—	—	—
Payson	21	—	—	—	21
Uninc. Gila Co.	39	—	—	—	39
GRAHAM COUNTY	30	—	—	—	30
Pima	2	—	—	—	2
Safford	6	—	—	—	6
Thatcher	3	—	—	—	3
Uninc. Graham Co.	19	—	—	—	19
GREENLEE COUNTY	—	—	—	—	—
Clifton	—	—	—	—	—
Duncan	—	—	—	—	—
Uninc. Greenlee Co.	—	—	—	—	—
MARICOPA COUNTY	1,820	25	22	40	3,083
Avondale	10	—	2	7	64
Buckeye	1	—	—	—	1
Chandler	126	6	1	—	142
El Mirage	—	—	—	—	—
Gila Bend	1	—	—	—	1
Gilbert	7	—	—	—	7
Glendale	124	—	—	—	124
Goodyear	—	—	—	—	—
Guadalupe	8	—	—	—	8
Mesa	193	5	15	14	850
Paradise Valley	6	—	—	—	6
Peoria	72	12	—	—	96
Phoenix	512	2	1	9	863
Scottsdale	189	—	—	2	201
Surprise	2	—	—	—	2
Tempe	51	—	—	7	163
Tolleson	5	—	—	—	5
Uninc. Maricopa Co.	503	—	3	—	515
Wickenburg	2	—	—	1	27
Youngtown	8	—	—	—	8

CENSUS DIVISION	BUILDING PERMITS ISSUED 1* Family	Duplex	3-4 Families	5 or More	Housing Units
MOHAVE COUNTY	226	—	—	1	233
Kingman City	32	—	—	—	32
Kingman Area	29	—	—	—	29
Lake Havasu City	85	—	—	1	92
Lake Havasu Area	6	—	—	—	6
Mohave Valley North	36	—	—	—	36
Mohave Valley South	30	—	—	—	30
Dolan Springs	3	—	—	—	3
Sacramento Valley	3	—	—	—	3
Mohave Co. General	2	—	—	—	2
NAVAJO COUNTY	13	—	—	—	13
Holbrook	3	—	—	—	3
Show Low	5	—	—	—	5
Snowflake	3	—	—	—	3
Taylor	—	—	—	—	—
Uninc. Navajo Co.	N/R	N/R	N/R	N/R	N/R
Winslow	2	—	—	—	2
PIMA COUNTY	928	12	12	5	1,196
Marana	—	—	—	—	—
Oro Valley	—	—	—	—	—
South Tucson	N/R	N/R	N/R	N/R	N/R
Tucson	144	12	2	5	374
Uninc. Pima Co.	784	—	10	—	822
PINAL COUNTY	45	—	—	—	45
Casa Grande	N/R	N/R	N/R	N/R	N/R
Coolidge	—	—	—	—	—
Eloy	2	—	—	—	2
Florence	1	—	—	—	1
Kearny	—	—	—	—	—
Mammoth	—	—	—	—	—
Superior	—	—	—	—	—
Uninc. Pinal Co.	42	—	—	—	42
SANTA CRUZ COUNTY	13	—	—	—	13
Nogales	N/R	N/R	N/R	N/R	N/R
Patagonia	—	—	—	—	—
Uninc. Santa Cruz Co.	13	—	—	—	13
YAVAPAI COUNTY	160	—	1	—	164
Chino Valley	5	—	—	—	5
Clarkdale	—	—	—	—	—
Cottonwood	13	—	—	—	13
Jerome	—	—	—	—	—
Prescott	15	—	1	—	19
Uninc. Yavapai Co.	127	—	—	—	127
YUMA COUNTY	41	—	8	3	185
Parker	2	—	—	—	2
Somerton	11	—	—	—	11
Uninc. Yuma Co.	10	—	—	—	10
Wellton	—	—	—	—	—
Yuma	18	—	8	3	162
TOTAL, Maricopa Co., August 1979	1,820	25	22	40	3,083
TOTAL, Maricopa Co., August 1978	2,478	3	21	52	4,392
PERCENT CHANGE	- 27	733	5	- 23	- 30
TOTAL, Arizona, August 1979	3,617	37	43	50	5,328
TOTAL, Arizona, August 1978	4,263	18	38	53	6,287
PERCENT CHANGE	- 15	106	13	- 6	- 15

N/R: No report; data for this month will be combined with data reported for the following month.
*Includes mobile homes.

Arizona Building Permits: Monthly Report

AUGUST, 1979	RESIDENTIAL		COMMERCIAL		INDUSTRIAL		OTHER		TOTAL	
CENSUS DIVISION	*Number of Permits*	*Dollar Value*	*Number of Permits*	*Dollar Value*	*Number of Permits*	*Dollar Value*	*Number of Permits*	*Dollar Value*	*Number of Permits*	*Dollar Value*
APACHE COUNTY	21	246,500	4	N/C	—	—	6	5,600	31	252,100
Eagar	4	198,000	—	—	—	—	3	N/C	7	198,000
St. Johns	10	N/C	1	N/C	—	—	1	N/C	12	N/C
Springerville	2	N/C	3	N/C	—	—	—	—	5	N/C
Unincorporated Apache County	5	48,500	—	—	—	—	2	5,600	7	54,100
COCHISE COUNTY	208	3,946,995	7	1,729,800	1	11,000	94	247,582	310	5,935,377
Benson	3	7,350	—	—	—	—	4	6,171	7	13,521
Bisbee	31	33,515	—	—	—	—	0	—	31	33,515
Douglas	20	179,235	1	4,800	—	—	16	57,192	37	241,227
Huachuca City	2	1,452	—	—	—	—	1	100	3	1,552
Sierra Vista	72	1,907,119	3	1,315,000	—	—	58	96,806	133	3,318,925
Tombstone	1	58,000	—	—	—	—	—	—	1	58,000
Unincorporated Cochise County	72	1,664,524	2	160,000	—	—	14	75,313	88	1,899,837
Willcox	7	95,800	1	250,000	1	11,000	1	12,000	10	368,800
COCONINO COUNTY	199	5,318,382	20	5,691,148	1	80,000	58	1,716,778	278	12,806,308
Flagstaff	82	3,474,795	11	5,667,108	1	80,000	17	589,495	111	9,811,398
Fredonia	—	—	—	—	—	—	1	500	1	500
Page	13	198,770	—	—	—	—	1	1,400	14	200,170
Unincorporated Coconino County	103	1,642,317	9	24,040	—	—	32	385,233	144	2,051,590
Williams	1	2,500	—	—	—	—	7	740,150	8	742,650
GILA COUNTY	94	1,521,580	—	—	—	—	40	129,934	134	1,651,514
Globe	4	29,000	—	—	—	—	3	4,559	7	33,559
Hayden	1	33,000	—	—	—	—	2	1,289	3	34,289
Miami	4	30,500	—	—	—	—	1	65,000	5	95,500
Payson	28	394,145	—	—	—	—	24	37,786	52	431,931
Unincorporated Gila County	57	1,034,935	—	—	—	—	10	21,300	67	1,056,235
GRAHAM COUNTY	57	662,813	8	41,400	—	—	6	17,200	71	721,413
Pima	2	21,000	—	—	—	—	—	—	2	21,000
Safford	17	218,800	6	12,900	—	—	6	17,200	29	248,900
Thatcher	10	127,000	—	—	—	—	—	—	10	127,000
Unincorporated Graham County	28	296,013	2	28,500	—	—	—	—	30	324,513
GREENLEE COUNTY	—	—	—	—	—	—	—	—	—	—
Clifton	—	—	—	—	—	—	—	—	—	—
Duncan	—	—	—	—	—	—	—	—	—	—
Unincorporated Greenlee County	—	—	—	—	—	—	—	—	—	—
MARICOPA COUNTY	2,521	61,566,778	182	52,758,959	64	13,048,130	2,053	20,727,573	4,820	148,101,440
Avondale	14	245,156	10	1,504,600	—	—	4	8,000	28	1,757,756
Buckeye	5	28,100	—	—	—	—	—	—	5	28,100
Chandler	148	2,559,761	1	55,000	6	1,147,678	142	234,369	297	3,996,808
El Mirage	—	—	—	—	—	—	—	—	—	—
Gila Bend	1	30,000	—	—	—	—	—	—	1	30,000
Gilbert	7	262,500	—	—	1	9,200	18	38,808	26	310,508
Glendale	176	4,422,040	17	806,500	—	—	214	474,850	407	5,703,390
Goodyear	—	—	—	—	—	—	9	14,770	9	14,770
Guadalupe	11	98,800	—	—	—	—	—	—	11	98,800
Mesa	219	3,631,131	38	12,109,500	2	105,000	329	3,478,724	588	19,324,355
Paradise Valley	8	637,890	2	134,000	—	—	9	116,727	19	888,617
Peoria	92	2,343,641	1	7,612	—	—	80	96,062	173	2,447,315
Phoenix	793	20,351,748	43	26,719,079	27	8,148,452	825	14,016,184	1,688	69,235,463
Scottsdale	269	9,339,071	12	3,076,180	—	—	365	1,286,599	646	13,701,850
Surprise	4	17,200	—	—	—	—	4	1,435	8	18,635
Tempe	105	1,628,200	16	1,926,900	28	3,637,800	45	577,800	194	7,770,700
Tolleson	8	135,900	1	12,000	—	—	5	2,372	14	150,272
Unincorporated Maricopa County	622	15,580,453	39	4,618,585	—	—	1	30,000	662	20,229,038
Wickenburg	7	49,137	1	779,905	—	—	3	350,873	11	1,179,915
Youngtown	32	206,050	1	1,009,098	—	—	—	—	33	1,215,148

Arizona Building Permits: Monthly Report (Continued)

AUGUST, 1979	RESIDENTIAL* Number of Permits	RESIDENTIAL* Dollar Value	COMMERCIAL Number of Permits	COMMERCIAL Dollar Value	INDUSTRIAL Number of Permits	INDUSTRIAL Dollar Value	OTHER Number of Permits	OTHER Dollar Value	TOTAL Number of Permits	TOTAL Dollar Value
MOHAVE COUNTY	449	5,298,848	28	3,685,236	—	—	55	203,996	532	9,188,080
Kingman City	48	517,383	3	53,950	—	—	10	79,250	61	650,583
Kingman Area	79	507,093	5	2,495,149	—		4	428	88	3,002,670
Lake Havasu City	97	2,749,219	13	905,383	—	—	16	83,970	126	3,738,572
Lake Havasu Area	20	81,968	—	—	—	—	0	—	20	81,968
Mohave Valley North	100	666,094	2	133,458	—	—	22	9,908	124	809,460
Mohave Valley South	69	577,883	—	—	—	—	2	15,440	71	593,323
Dolan Springs	17	79,936	3	48,144	—	—	—	—	20	128,080
Sacramento Valley	14	68,804	2	49,152	—	—	—	—	16	117,956
Mohave County General	5	50,468	—	—	—	—	1	15,000	6	65,468
NAVAJO COUNTY	31	379,875	1	5,000	—	—	18	12,295	50	397,170
Holbrook	5	86,000	—	—	—	—	—	—	5	86,000
Show Low	10	204,615	—	—	—	—	18	12,295	28	216,900
Snowflake	3	N/C	—	—	—	—	—	—	3	N/C
Taylor	1	3,000	—	—	—	—	—	—	1	3,000
Unincorporated Navajo County	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Winslow	12	86,260	1	5,000			—	—	13	91,260
PIMA COUNTY	1,580	28,601,736	31	10,026,866	—	—	448	9,478,962	2,059	48,107,564
Marana	—	—	—	—	—	—	—	—	—	—
Oro Valley	1	2,000	—	—	—	—	—	—	1	2,000
South Tucson	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Tucson	297	5,316,062	21	9,582,366	—	—	313	8,219,212	631	23,117,640
Unincorporated Pima County	1,282	23,283,674	10	444,500	—	—	135	1,259,750	1,427	24,987,924
PINAL COUNTY	88	689,165	1	23,000	—	—	31	89,314	120	801,479
Casa Grande	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Coolidge	17	31,985	—	—	—	—	2	400	19	32,385
Eloy	9	69,580	—	—	—	—	3	3,934	12	73,514
Florence	2	43,200	—	—	—	—	3	2,345	5	45,545
Kearny	1	1,500	—	—	—	—	1	40,000	2	41,500
Mammoth	—	—	—	—	—	—	—	—	—	—
Superior	2	1,500	—	—	—	—	—	—	2	1,500
Unincorporated Pinal County	57	541,400	1	23,000	—	—	22	42,635	80	607,035
SANTA CRUZ COUNTY	14	630,227	2	31,500	1	295,000	10	32,300	27	989,027
Nogales	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Patagonia	—	—	1	17,500	—	—	—	—	1	17,500
Unincorporated Santa Cruz County	14	630,227	1	14,000	1	295,000	10	32,300	26	971,527
YAVAPAI COUNTY	252	4,952,216	4	1,804,660	1	34,560	69	250,621	326	7,042,057
Chino Valley	9	67,920	—	—	—	—	5	15,750	14	83,670
Clarkdale	1	350	—	—	—	—	—	—	1	350
Cottonwood	23	306,359	—	—	—	—	2	22,000	25	328,359
Jerome	—	—	—	—	—	—	—	—	—	—
Prescott	48	573,672	3	1,789,660	1	34,560	37	99,627	89	2,497,519
Unincorporated Yavapai County	171	4,003,915	1	15,000	—	—	25	113,244	197	4,132,159
YUMA COUNTY	122	2,010,277	24	2,692,313	4	78,131	31	278,548	181	5,059,269
Parker	3	55,150	—	—	2	29,081	3	23,000	8	107,231
Somerton	11	385,000	—	—	—	—	3	4,000	14	389,000
Unincorporated Yuma County	70	813,416	8	256,957	2	49,050	2	12,195	82	1,131,618
Wellton	—	—	—	—	—	—	—	—	—	—
Yuma	38	756,711	16	2,435,356	—	—	23	239,353	77	3,431,420
TOTAL Maricopa County, August 1979	2,521	61,566,778	182	52,758,959	64	13,048,130	2,053	20,727,573	4,820	148,101,440
TOTAL Maricopa County August 1978	3,061	75,041,664	194	36,086,032	45	4,916,183	1,873	14,395,135	5,173	130,439,014
PERCENT CHANGE	- 18	- 18	- 6	46	42	165	10	44	- 7	14
TOTAL Arizona, August 1979	5,636	115,825,392	312	78,489,882	72	13,546,821	2,919	33,190,703	8,939	241,052,798
TOTAL Arizona, August 1978	6,157	124,587,436	324	47,841,848	54	9,959,035	2,727	28,527,267	9,262	210,915,586
PERCENT CHANGE	- 8	- 7	- 4	64	33	36	7	16	- 3	14

N/C: Not collected. N/R: No report; data for this month will be combined with data reported for the following month.
*Includes mobile homes.

Metropolitan Phoenix Consumer Price Index

THIRD QUARTER 1979

Consumer prices in Metropolitan Phoenix rose 2.7 percent during the third quarter of 1979 with increases of under 3 percent in six out of the seven major categories. This latest increase is equal to an annualized rate of 11.2 percent and compares favorably to the 20.6 percent annualized increase posted during the second quarter of 1979.

The declining rate of inflation between the second and third quarters of this year for the Phoenix area, however, was not consistent with trends in other parts of the country. An annualized rate of 13.9 percent was recorded for the United States as a whole, and figures of 17.2 percent and 12.9 percent were reported for Chicago and Los Angeles-Long Beach.

The Consumer Price Index (CPI) for the Phoenix Metropolitan area, upon which these inflation measures are based, is prepared by the Bureau of Business and Economic Research, College of Business Administration, Arizona State University. The quarterly CPI is based upon comprehensive surveys undertaken by the Bureau of Business and Economic Research in cooperative cosponsorship with the Valley National Bank of Arizona.

Food at Home prices rose at the slowest rate in almost two years with a quarterly increase of only 1.1 percent, which translates into a 5.3 percent annualized figure. Lower prices in Meats, Poultry, Fish and Eggs over the three-month period greatly contributed to the moderation in overall food prices. Increases were reported for the remaining categories of Cereals and Bakery Products, Dairy Products, Fruits and Vegetables, and Other Foods. The Cost of Food Away From Home rose at an annualized rate of 7.4 percent, an increase significantly less than the second quarter (26.7 percent).

The increase in Housing costs of 2.8 percent (an 11.7 percent annualized rate) was the smallest gain in this category since the second quarter of 1978. The cost of rentals increased slightly, 1.2 percent, while Out-of-Town Lodging rose 7.3 percent during the quarter. Climbing interest rates are reflected in the 3.9 percent advance in the contracted mortgage interest cost. Prices of new homes are not rising as rapidly, showing a gain of 2.9 percent for this quarter compared with 11.6 percent increase for the second quarter. Additional increases within the Homeownership category were noted for painting and maintenance supplies, and lumber and paneling. The increase of 8.5 percent for Fuels and Other Utilities (an annualized rate of 38.6 percent) is attributed to higher rates for electricity and fuel adjustment increases for natural gas. The large increase in this category was one of the major contributors to the jump in Housing costs during the third quarter.

Phoenix area shoppers experienced a 2.2 percent increase in the prices of Apparel and Upkeep during the third quarter (an annualized gain of 9.1 percent). This resulted mainly from higher clothing costs for the entire family. Notable increases were found in all items for women and girls — specifically women's coats, suits, separates, and sportswear, and girls' sleepwear and sportswear — and footwear for all members of the family.

Of the major categories, Transportation was the inflationary leader for the Phoenix area, recording a 4.4 percent quarterly increase, which equals an annualized figure of 18.8 percent. However, the Phoenix area continues to have lower transportation costs than the rest of the country when compared to the annualized rates of increase for Chicago (24.4 percent) and Los Angeles-Long Beach (27.2 percent). Large quarterly gains were again recorded for gasoline (19.3 percent) and automotive oil and additives (13.1 percent). Higher costs were also found for prices of new cars, tires, auto maintenance, repair and servicing, and car rentals. The advance in public transportation costs is due mainly to price hikes in airline, bus, and train fares, resulting in a quarterly increase of 10.1 percent.

An annualized rate of 12.1 percent reflects the rising cost of Medical Care in the valley. The figure is above comparable increases for the U.S. average (9.5 percent), Chicago (9.1 percent), and Los Angeles-Long Beach (10.2 percent). Contributing to the quarterly increase of 2.9 percent were increases in the cost of prescription and over-the-counter drugs, physicians' services, and hospital rooms and other services.

Increase in entertainment prices in the Phoenix area exceeded the national average, posting a 2.2 percent increase during the third quarter (an annualized 9.1 percent increase). Rising costs of pet expenses, exercise equipment, hobby supplies, and film processing contributed to the overall gain.

Prices for Other Goods and Services showed an increase of only 0.6 percent (an annualized rate of 2.4 percent) for the quarter. Increases in college and high school tuition, school books and supplies were generally offset by decreases in beauty parlor services and hair products.

METROPOLITAN PHOENIX CONSUMER PRICE INDEX
THIRD QUARTER 1979
(1969 = 100)

Group	*Index Last Quarter*	*Index This Quarter*	*Percentage Change from Last Quarter*	*Annualized Percentage Increase*
ALL ITEMS	194.4	199.6	2.7	11.2
Food and Beverages	198.4	201.4	1.5	6.1
Food	203.4	206.1	1.3	5.3
Food at Home	215.5	217.9	1.1	
Cereals and Bakery Products	202.1	210.9	4.3	
Meats, Poultry, Fish, and Eggs	226.4	215.9	-4.6	
Dairy Products	185.1	190.7	3.0	
Fruits and Vegetables	193.1	201.3	4.3	
Other Foods at Home	197.6	204.1	3.3	
Food Away From Home	171.9	175.0	1.8	7.4
Alcoholic Beverages	134.3	139.4	3.8	16.1
Housing	189.8	195.1	2.8	11.7
Shelter	193.1	198.1	2.6	10.8
Rent, Residential	150.4	152.7	1.6	6.6
Homeownership	199.3	204.9	2.8	11.7
Fuel and Other Utilities	203.7	221.1	8.5	38.6
Household Furnishings and Operation	176.6	176.6	.0	
Apparel and Upkeep	168.5	172.2	2.2	9.1
Apparel Commodities	163.2	167.6	2.7	
Men's and Boys' Apparel	145.9	142.1	-2.6	
Women's and Girls'	162.9	173.3	6.4	
Footwear	202.4	211.8	4.6	
Transportation	199.3	208.1	4.4	18.8
Private Transportation	199.6	207.8	4.1	17.4
Public Transportation	193.1	212.5	10.1	46.9
Medical Care	259.7	267.3	2.9	12.1
Entertainment	167.2	170.9	2.2	9.1
Other Goods and Services	202.8	204.1	.6	2.4
Personal Care	197.6	196.1	.7	

Source: Bureau of Business and Economic Research, College of Business Administration, Arizona State University.

	United States		*Chicago*		*LA-Long Beach*	
Group	*Percentage Change From Last Quarter*	*Percentage Change From One Year Ago*	*Percentage Change From Last Quarter*	*Percentage Change From One Year Ago*	*Percentage Change From Last Quarter*	*Percentage Change From One Year Ago*
All Items	3.27	11.78	4.05	14.15	3.08	11.60
Food	0.85	9.70	0.34	9.39	-0.95	12.52
Food at Home	0.21	9.04	-1.31	8.10	-1.85	9.57
Food Away from Home	2.24	11.19	3.79	12.16	0.69	8.89
Housing	4.09	12.82	6.59	19.27	3.96	11.37
Shelter	4.45	14.35	7.02	21.92	4.43	12.21
Fuel and Utilities	6.46	13.34	9.21	18.74	3.11	11.56
Household Furnishings and Operations	1.06	6.88	2.95	9.98	1.93	7.58
Apparel and Upkeep	0.12	4.20	-1.01	0.55	-0.92	2.57
Transportation	5.73	16.75	5.61	15.54	6.22	19.70
Medical Care	2.33	9.21	2.21	10.36	2.45	8.53
Entertainment	1.28	7.22	1.88	13.57	1.56	9.14
Other Goods & Services	1.60	7.07	-0.67	4.67	2.80	6.65

Source: Metropolitan Phoenix data compiled by the ASU Bureau of Business and Economic Research; other data from U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.

Maricopa County Monthly Retail Food Prices

SEPTEMBER

The Maricopa County Index of Food Consumed at Home rose 0.4 percent in September following a 0.9 percent decrease in August. The September index value of 221.8 indicates that county shoppers had to pay $22.18 for a similar basket of foodstuffs that would have cost $10.00 in 1967. This food basket could have been purchased for $20.35 one year ago.

The September gain was a result of increases in the subgroups *Other Foods* (1.1 percent), *Dairy Products* (1.0 percent), *Fruits and Vegetables* (0.8 percent), and *Cereals and Bakery Products* (0.3 percent), which more than offset the decrease in the subgroup *Meats, Poultry, Fish and Eggs* (-0.6 percent).

An increase in the price of carbonated drinks (6.5 percent) and roasted coffee (3.8 percent) contributed to the rise in the subgroup *Other Foods*. Prices recorded in the subgroup *Dairy Products* were higher for virtually all items, most notably ice cream (2.5 percent), butter (1.6 percent), and cheese (1.1 percent).

Seasonal variations in the price of *Fruits and Vegetables* accounted for the increase in this subgroup. The price of apples (28.3 percent), lettuce (22.4 percent), and bananas (16.3 percent) showed the greatest increases while the greatest decreases were noted in the price of fresh vegetables other than potatoes, lettuce, and tomatoes (-14.5 percent), tomatoes (-11.1 percent), and oranges (-6.4 percent). The higher index for *Cereals and Bakery Products* reflects increased prices for rice, macaroni, and similar products (2.1 percent), bread other than white (1.5 percent), and cereal (1.4 percent).

Mixed changes for items in the subgroup *Meats, Poultry, Fish, and Eggs* led to the overall decrease in this category. Poultry prices generally exhibited the largest decline, particularly fresh or frozen chicken parts (-9.4 percent). Most beef and pork prices were also down, notably roast other than chuck and round (-6.3 percent), steak other than round and sirloin (-5.2 percent), and canned ham (-3.6 percent). These decreases were partially countered by increases for eggs (11.4 percent), sirloin steak (4.6 percent), and canned fish and seafood (2.5 percent).

A comparison of the June Food Consumed at Home Index for Maricopa County with index values for four selected metropolitan areas reveals that the outlays required to purchase a foodstuffs group in June 1979 (obtainable for an outlay of $10.00 at 1967 average prices) were $22.13 in Maricopa County; $23.07 in Los Angeles-Long Beach; $23.90 in San Francisco-Oakland; $23.65 in Chicago-Northwestern Indiana; and $23.42 in the United States (average).

TABLE 1
INDEX FOR FOOD CONSUMED AT HOME
Maricopa County, United States, and Selected Metropolitan Areas
(Average 1967 = 100 percent)

Group	Maricopa County Sept. '79	Maricopa County June '79	United States June '79	Los Angeles-Long Beach June '79	San Francisco-Oakland June '79	Chicago-Northwestern Indiana June '79
Food Consumed at Home	221.8	221.3	234.2	230.7	239.0	236.5
Cereals and Bakery Products	209.5	200.8	217.8	220.8	217.5	222.3
Meats, Poultry, Fish, and Eggs	233.8	249.7	239.8	241.1	250.7	245.9
Dairy Products	196.9	191.2	205.5	192.1	196.8	204.3
Fruits and Vegetables	204.7	204.6	233.8	223.8	240.7	239.4
Other Foods Consumed at Home	241.1	231.1	267.1	261.3	278.5	268.6

[a] Computed from data contained in The Consumer Price Index, U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.

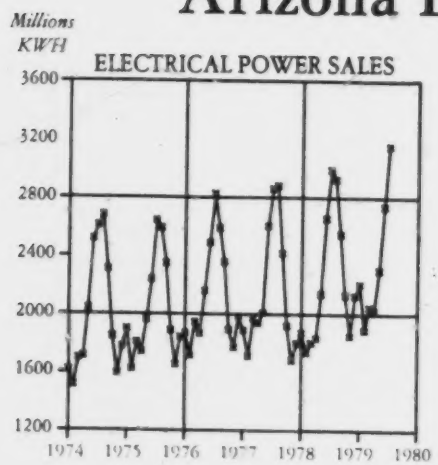
Note: Index comparisons between Maricopa County and the other regions show only that food prices in Maricopa County have increased more or less than food prices in the other regions since 1967. The indices cannot be used to determine the actual differences in food price levels between the regions.

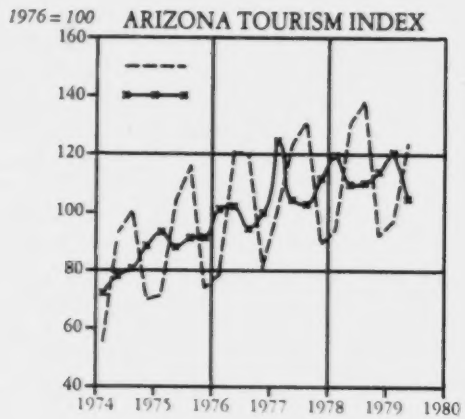
[a] Maricopa County food prices are reported for the month closest to publication.

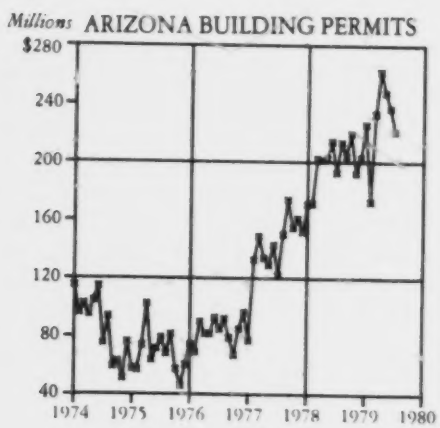
[b] Comparisons of food prices among various cities and the U.S. average are made on the basis of earlier months because of the lag in collecting price reports from these other areas.

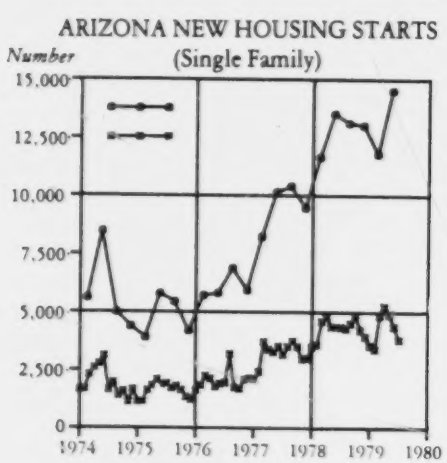
Sources: Bureau of Business and Economic Research, College of Business Administration, Arizona State University, in cooperative cosponsorship with Valley National Bank.

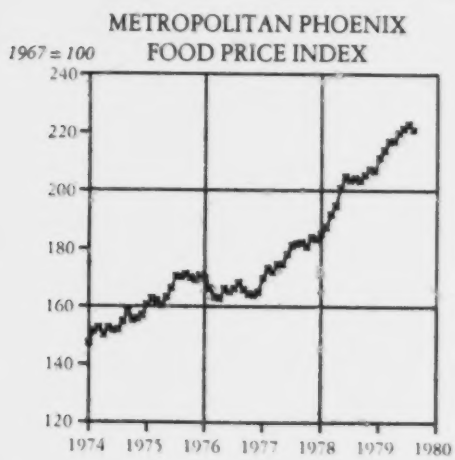
Arizona Economic Indicators

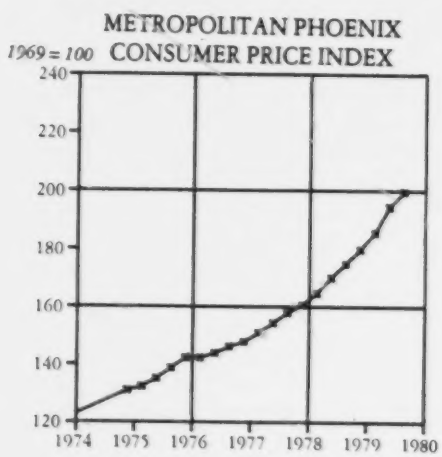












Source: All data compiled by the Bureau of Business and Economic Research, College of Business Administration, Arizona State University.